PRUDENTIAL FINANCIAL INC
Form 10-K
February 26, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(MARK ONE)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 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)

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	**Name of Each Exchange on Which Registered**

Common Stock, Par Value $.01 (including Shareholder Protection Rights)	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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. (Check one):

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 Act). Yes ¨ No x

As of June 30, 2009, the aggregate market value of the registrant s Common Stock (par value $0.01) held by non-affiliates of the registrant was $17.14 billion and 460 million shares of the Common Stock were outstanding. As of January 31, 2010, 463 million shares of the registrant s Common Stock (par value $0.01) were outstanding. As of June 30, 2009, and January 31, 2010, 2 million shares of the registrant s Class B Stock, for which there is no established public trading market, were outstanding and held by non-affiliates of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

The information required to be furnished pursuant to Part III of this Form 10-K is set forth in, and is hereby incorporated by reference herein from, the Registrant s Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 11, 2010, to be filed by the Registrant with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the year ended December 31, 2009.

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Forward-Looking Statements

Certain of the statements included in this Annual Report on Form 10-K, 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 the severe economic conditions and the severe stress experienced by the global financial markets that began the second half of 2007 and continued into 2009; (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 from the second half of 2007 continuing into 2009 was characterized by extreme adverse market and economic conditions. The foregoing risks are even more pronounced in such 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 for discussion of certain risks relating to our businesses and investment in our securities.

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Throughout this Annual Report on Form 10-K, 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

ITEM 1. BUSINESS

Overview

Prudential Financial, Inc., a financial services leader with approximately $667 billion of assets under management as of December 31, 2009, has operations in the United States, Asia, Europe and Latin America. Through our subsidiaries and affiliates, we offer a wide array of financial products and services, including life insurance, annuities, retirement-related services, mutual funds, investment management, and real estate services. We offer these products and services to individual and institutional customers through proprietary and third party distribution networks. Our principal executive offices are located in Newark, New Jersey.

The businesses of Prudential Financial are separated into the Financial Services Businesses and the Closed Block Business. The Financial Services Businesses comprises our U.S. Retirement Solutions and Investment Management division, U.S. Individual Life and Group Insurance division, and International Insurance and Investments division as well as our Corporate and Other operations. The Closed Block Business comprises the assets and related liabilities of the Closed Block described below and certain related assets and liabilities.

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

Demutualization and Separation of the Businesses

Demutualization

On December 18, 2001, our date of demutualization, Prudential Insurance converted from a mutual life insurance company owned by its policyholders to a stock life insurance company and became an indirect, wholly owned subsidiary of Prudential Financial. The demutualization was carried out under Prudential Insurance s Plan of Reorganization, dated as of December 15, 2000, as amended, which we refer to as the Plan of Reorganization. On the date of demutualization, eligible policyholders, as defined in the Plan of Reorganization, received shares of Prudential Financial s Common Stock or the right to receive cash or policy credits, which are increases in policy values or increases in other policy benefits, upon the extinguishment of all membership interests in Prudential Insurance.

On the date of demutualization, Prudential Financial completed an initial public offering of its Common Stock, as well as the sale of shares of Class B Stock, a separate class of common stock, through a private placement. In addition, on the date of demutualization, Prudential Holdings, LLC, a wholly owned subsidiary of Prudential Financial that owns the capital stock of Prudential Insurance, issued $1.75 billion in senior secured notes, which we refer to as the IHC debt. A portion of the IHC debt was insured by a bond insurer. Concurrent with the demutualization, various subsidiaries of Prudential Insurance were reorganized, becoming direct or indirect subsidiaries of Prudential Financial.

The Plan of Reorganization required us to establish and operate a regulatory mechanism known as the Closed Block. The Closed Block is designed generally to provide for the reasonable expectations of holders of

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participating individual life insurance policies and annuities included in the Closed Block for future policy dividends after demutualization by allocating assets that will be used for payment of benefits, including policyholder dividends, on these policies. See Note 12 to the Consolidated Financial Statements for more information on the Closed Block. The Plan of Reorganization provided that Prudential Insurance may, with the prior consent of the New Jersey Commissioner of Banking and Insurance, enter into agreements to transfer to a third party all or any part of the risks under the Closed Block policies. In 2005, we completed the process of arranging reinsurance of the Closed Block. The Closed Block is 90% reinsured, including 17% by a wholly owned subsidiary of Prudential Financial.

Separation of the Businesses

The businesses of Prudential Financial are separated into the Financial Services Businesses and the Closed Block Business for financial statement purposes. For a discussion of the operating results of the Financial Services Businesses and the Closed Block Business, see Management s Discussion and Analysis of Financial Condition and Results of Operations. The Financial Services Businesses comprises our U.S. Retirement Solutions and Investment Management division, U.S. Individual Life and Group Insurance division, and International Insurance and Investments division as well as our Corporate and Other operations. See Financial Services Businesses below for a more detailed discussion of the divisions comprising the Financial Services Businesses. The Closed Block Business comprises the assets and related liabilities of the Closed Block and certain other assets and liabilities, including the IHC debt. See Closed Block Business below for additional discussion of the Closed Block Business. We refer to the Financial Services Businesses and the Closed Block Business collectively as the Businesses.

The following diagram reflects the allocation of Prudential Financial s consolidated assets and liabilities between the Financial Services Businesses and the Closed Block Business:

There is no legal separation of the two Businesses. The foregoing allocation of assets and liabilities does not require Prudential Financial, Prudential Insurance, any of their subsidiaries or the Closed Block to transfer any specific assets or liabilities to a separate legal entity. Financial results of the Closed Block Business, including debt service on the IHC debt, will affect Prudential Financial s consolidated results of operations, financial position and borrowing costs. In addition, any net losses of the Closed Block Business, and any dividends or distributions on, or repurchases of, the Class B Stock, will reduce the assets of Prudential Financial legally available for dividends on the Common Stock. Accordingly, you should read the financial information for the Financial Services Businesses together with the consolidated financial information of Prudential Financial.

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The Common Stock reflects the performance of the Financial Services Businesses and the Class B Stock reflects the performance of the Closed Block Business. However, the market value of the Common Stock may not reflect solely the performance of the Financial Services Businesses.

In order to separately reflect the financial performance of the Financial Services Businesses and the Closed Block Business since the date of demutualization, we have allocated all our assets and liabilities and earnings between the two Businesses, and we account for them as if they were separate legal entities. All assets and liabilities of Prudential Financial and its subsidiaries not included in the Closed Block Business constitute the assets and liabilities of the Financial Services Businesses. Assets and liabilities allocated to the Closed Block Business are those that we consider appropriate to operate that Business. The Closed Block Business consists principally of:

- within Prudential Insurance, the Closed Block Assets, Surplus and Related Assets (see below), deferred policy acquisition costs and other assets in respect of the policies included in the Closed Block and, with respect to liabilities, the Closed Block Liabilities;

- within Prudential Holdings, LLC, the principal amount of the IHC debt, related unamortized debt issuance costs and hedging activities, and a guaranteed investment contract; and

- within Prudential Financial, dividends received from Prudential Holdings, LLC, and reinvestment proceeds thereof, and other liabilities of Prudential Financial, in each case attributable to the Closed Block Business.

The Closed Block Assets consist of (1) those assets initially allocated to the Closed Block including fixed maturities, equity securities, commercial loans and other long- and short-term investments, (2) cash flows from such assets, (3) assets resulting from the reinvestment of such cash flows, (4) cash flows from the Closed Block Policies, and (5) assets resulting from the investment of cash flows from the Closed Block Policies. The Closed Block Assets include policy loans, accrued interest on any of the foregoing assets and premiums due on the Closed Block Policies. The Closed Block Liabilities are Closed Block Policies and other liabilities of the Closed Block associated with the Closed Block Assets. The Closed Block Assets and Closed Block Liabilities are supported by additional assets held outside the Closed Block by Prudential Insurance to provide additional capital with respect to the Closed Block Policies, as well as invested assets held outside the Closed Block that initially represented the difference between the Closed Block Assets and the sum of the Closed Block Liabilities and the interest maintenance reserve. We refer to these additional assets and invested assets outside the Closed Block collectively as the Surplus and Related Assets. The interest maintenance reserve, recorded only under statutory accounting principles, captures realized capital gains and losses resulting from changes in the general level of interest rates. These gains and losses are amortized into statutory investment income over the expected remaining life of the investments sold or impaired.

On the date of demutualization, the majority of the net proceeds from the issuances of the Class B Stock and the IHC debt was allocated to our Financial Services Businesses. Also, on the date of demutualization, Prudential Holdings, LLC distributed $1.218 billion of the net proceeds of the IHC debt to Prudential Financial to use for general corporate purposes in the Financial Services Businesses. Prudential Holdings, LLC deposited $437 million of the net proceeds of the IHC debt in a debt service coverage account maintained in the Financial Services Businesses that, together with reinvested earnings thereon, constitutes a source of payment and security for the IHC debt. The remainder of the net proceeds, $72 million, was used to purchase a guaranteed investment contract to fund a portion of the bond insurance related to the IHC debt. To the extent we use the debt service coverage account to service payments with respect to the IHC debt or to pay dividends to Prudential Financial for purposes of the Closed Block Business, a loan from the Financial Services Businesses to the Closed Block Business would be established. Such an inter-business loan would be repaid by the Closed Block Business to the Financial Services Businesses when earnings from the Closed Block Business replenish funds in the debt service coverage account to a specified level. See Note 14 of the Consolidated Financial Statements for additional information on the IHC debt and the debt service coverage account.

We believe that the proceeds from the issuances of the Class B Stock and IHC debt allocated to the Financial Services Businesses reflected capital in excess of that necessary to support the Closed Block Business and that the Closed Block Business as established has sufficient assets and cash flows to service the IHC debt. The Closed Block Business was financially leveraged through the issuance of the IHC debt, and dividends on the

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Class B Stock are subject to prior servicing of the IHC debt. It is expected that any inter-business loan referred to above will be repaid in full out of the Surplus and Related Assets, but not the Closed Block Assets. Any such loan will be subordinated to the IHC debt.

The Financial Services Businesses will bear any expenses and liabilities from litigation affecting the Closed Block Policies and, as discussed below, the consequences of certain potential adverse tax determinations. In connection with the sale of the Class B Stock and IHC debt, we agreed to indemnify the investors in those securities with respect to certain matters, and any cost of that indemnification would be borne by the Financial Services Businesses.

Within the Closed Block Business, the assets and cash flows attributable to the Closed Block accrue solely to the benefit of the Closed Block policyholders through policyholder dividends after payment of benefits, expenses and taxes. The Surplus and Related Assets accrue to the benefit of the holders of Class B Stock. The earnings on, and distribution of, the Surplus and Related Assets over time will be the source or measure of payment of the interest and principal of the IHC debt and of dividends on the Class B Stock. The earnings of the Closed Block are reported as part of the Closed Block Business, although no cash flows or assets of the Closed Block accrue to the benefit of the holders of Common Stock or Class B Stock. The Closed Block Assets are not available to service interest or principal of the IHC debt or dividends on the Class B Stock.

Inter-Business Transfers and Allocation Policies

Prudential Financial s Board of Directors has adopted certain policies with respect to inter-business transfers and accounting and tax matters, including the allocation of earnings. Such policies are summarized below. In the future, the Board of Directors may modify, rescind or add to any of these policies. However, the decision of the Board of Directors to modify, rescind or add to any of these policies is subject to the Board of Directors general fiduciary duties. In addition, we have agreed with the investors in the Class B Stock and the insurer of the IHC debt that, in most instances, the Board of Directors may not change these policies without their consent.

Inter-Business Transactions and Transfers

The transactions permitted between the Financial Services Businesses and the Closed Block Business, subject to any required regulatory approvals and the contractual limitations noted above, include the following:

- The Closed Block Business may lend to the Financial Services Businesses, and the Financial Services Businesses may lend to the Closed Block Business, in each case on terms no less favorable to the Closed Block Business than comparable internal loans and only for cash management purposes in the ordinary course of business and on market terms pursuant to our internal short-term cash management facility.

- Other transactions between the Closed Block and businesses outside of the Closed Block, including the Financial Services Businesses, are permitted if, among other things, such transactions benefit the Closed Block, are at fair market value and do not exceed, in any calendar year, a specified formula amount.

- Capital contributions to Prudential Insurance may be for the benefit of either the Financial Services Businesses or the Closed Block Business and assets of the Financial Services Businesses within Prudential Insurance may be transferred to the Closed Block Business within Prudential Insurance in the form of a loan which is subordinated to all existing obligations of the Closed Block Business and on market terms.

An inter-business loan from the Financial Services Businesses to the Closed Block Business may be established to reflect usage of the net proceeds of the IHC debt initially deposited in the debt service coverage account, and any reinvested earnings thereon, to pay debt service on the IHC debt or dividends to Prudential Financial for purposes of the Closed Block Business.

In addition to the foregoing, the Financial Services Businesses may lend to the Closed Block Business, on either a subordinated or non-subordinated basis, on market terms as may be approved by Prudential Financial.

The Financial Services Businesses and the Closed Block Business may engage in such other transactions on market terms as may be approved by Prudential Financial and, if applicable, Prudential Insurance.

The Board of Directors has discretion to transfer assets of the Financial Services Businesses to the Closed Block, or use such assets for the benefit of Closed Block policyholders, if it believes such transfer or usage is in the best interests of the Financial Services Businesses, and such transfer or usage may be made without requiring any repayment of the amounts transferred or used or the payment of any other consideration from the Closed Block Business.

Cash payments for administrative purposes from the Closed Block Business to the Financial Services Businesses are based on formulas that initially approximated the actual expenses incurred by the Financial Services Businesses to provide such services based on insurance and policies in force and statutory cash premiums. Administrative expenses recorded by the Closed Block Business, and the related income tax effect, are based upon actual expenses incurred under accounting principles generally accepted in the U.S., or U.S. GAAP, utilizing the Company s methodology for the allocation of such expenses. Any difference in the cash amount transferred and actual expenses incurred as reported under U.S. GAAP will be recorded, on an after-tax basis at the applicable current rate, as direct adjustments to the respective equity balances of the Closed Block Business and the Financial Services Businesses, without the issuance of shares of either Business to the other Business. This direct equity adjustment modifies earnings available to each class of common stock for earnings per share purposes. Internal investment expenses recorded and paid by the Closed Block Business, and the related income tax effect, are based upon actual expenses incurred under U.S. GAAP and in accordance with internal arrangements governing recordkeeping, bank fees, accounting and reporting, asset allocation, investment policy and planning and analysis.

Accounting Policies

Accounting policies relating to the allocation of assets, liabilities, revenues and expenses between the two Businesses include:

All our assets, liabilities, equity and earnings are allocated between the two Businesses and accounted for as if the Businesses were separate legal entities. Assets and liabilities allocated to the Closed Block Business are those that we consider appropriate to operate that Business. All remaining assets and liabilities of Prudential Financial and its subsidiaries constitute the assets and liabilities of the Financial Services Businesses.

For financial reporting purposes, revenues; administrative, overhead and investment expenses; taxes other than federal income taxes; and certain commissions and commission-related expenses associated with the Closed Block Business are allocated between the Closed Block Business and the Financial Services Businesses in accordance with U.S. GAAP. Interest expense and routine maintenance and administrative costs generated by the IHC debt are considered directly attributable to the Closed Block Business and are therefore allocated to the Closed Block Business, except as indicated below.

Any transfers of funds between the Closed Block Business and the Financial Services Businesses will typically be accounted for as either reimbursement of expense, investment income, return of principal or a subordinated loan, except as described under Inter-Business Transactions and Transfers above.

The Financial Services Businesses will bear any expenses and liabilities from litigation affecting the Closed Block Policies and the consequences of certain potential adverse tax determinations noted below. In connection with the sale of the Class B Stock and IHC debt, we agreed to indemnify the investors with respect to certain matters, and any such indemnification would be borne by the Financial Services Businesses.

Tax Allocation and Tax Treatment

The Closed Block Business within each legal entity is treated as if it were a consolidated subsidiary of Prudential Financial. Accordingly, if the Closed Block Business has taxable income, it recognizes its share of income tax as if it were a consolidated subsidiary of Prudential Financial. If the Closed Block Business has losses or credits, it recognizes a current income tax benefit.

If the Closed Block Business within any legal entity has taxable income, it pays its share of income tax in cash to the Financial Services Businesses. If it has losses or credits, it receives its benefit in cash from the

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Financial Services Businesses. If the losses or credits cannot be currently utilized in the consolidated federal income tax return of Prudential Financial for the year in which such losses or credits arise, the Closed Block Business will receive the full benefit in cash, and the Financial Services Businesses will subsequently recover the payment at the time the losses or credits are actually utilized in computing estimated payments or in the consolidated federal income tax return of Prudential Financial. Certain tax costs and benefits are determined under the Plan of Reorganization with respect to the Closed Block using statutory accounting rules that may give rise to tax costs or tax benefits prior to the time that those costs or benefits are actually realized for tax purposes. If at any time the Closed Block Business is allocated any such tax cost or a tax benefit under the Plan of Reorganization that is not realized at that same time under the relevant tax rules but will be realized in the future, the Closed Block Business will pay such tax cost or receive such tax benefit at that time, but it will be paid to or paid by the Financial Services Businesses. When such tax cost or tax benefit is subsequently realized under the relevant tax rules, the tax cost or tax benefit will be allocated to the Financial Services Businesses.

The foregoing principles are applied so as to prevent any item of income, deduction, gain, loss, credit, tax cost or tax benefit being taken into account more than once by the Closed Block Business or the Financial Services Businesses. For this purpose, items determined under the Plan of Reorganization with respect to any period prior to the date of demutualization were taken into account, with any such pre-demutualization tax attributes relating to the Closed Block being attributed to the Closed Block Business and all other pre-demutualization tax attributes being attributed to the Financial Services Businesses. The Closed Block Business will also pay or receive its appropriate share of tax or interest resulting from adjustments attributable to the settlement of tax controversies or the filing of amended tax returns to the extent that the tax or interest relates to controversies or amended returns arising with respect to the Closed Block Business and attributable to tax periods after the date of demutualization, except to the extent that the tax is directly attributable to the characterization of the IHC debt for tax purposes, in which case the tax will be borne by the Financial Services Businesses. In particular, if a change of tax law after the date of demutualization, including any change in the interpretation of any tax law, results in the recharacterization of all or part of the IHC debt for tax purposes or a significant reduction in the income tax benefit associated with the interest expense on all or part of the IHC debt, the Financial Services Businesses will continue to pay the foregone income tax benefit to the Closed Block Business until the IHC debt has been repaid or Prudential Holdings, LLC has been released from its obligations to the bond insurer and under the IHC debt as if such recharacterization or reduction of actual benefit had not occurred.

Internal Short-Term Cash Management Facilities

The Financial Services Businesses and Closed Block Business participate in separate internal short-term cash management facilities, pursuant to which they invest cash from securities lending and repurchase activities as well as certain trading and operating activities. The net funds invested in the facility are generally held in investments that are short-term, including mortgage- and asset-backed securities. Each Business holds discrete ownership of its investments in separate facilities without affecting or being affected by the level of participation of the other Business. See Note 2 to the Supplemental Combining Financial Information for additional information concerning our internal short-term cash management facilities.

Financial Services Businesses

The Financial Services Businesses is comprised of three divisions, containing seven segments, and our Corporate and Other operations. The U.S. Retirement Solutions and Investment Management division is comprised of the Individual Annuities, Retirement and Asset Management segments. The U.S. Individual Life and Group Insurance division is comprised of the Individual Life and Group Insurance segments. The International Insurance and Investments division is comprised of the International Insurance and International Investments segments.

See Note 22 to the Consolidated Financial Statements for revenues, income and loss, and total assets by segment of the Financial Services Businesses.

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U.S. Retirement Solutions and Investment Management Division

The U.S. Retirement Solutions and Investment Management division conducts its business through the Individual Annuities, Retirement and Asset Management segments.

Individual Annuities

Our Individual Annuities segment manufactures and distributes individual variable and fixed annuity products, primarily to the U.S. mass affluent market. In general, we consider households with investable assets or annual income in excess of $100,000 to be mass affluent in the U.S. market. The Individual Annuities segment competes with other providers of retirement savings and accumulation products, including other large, well-established insurance and financial services companies. We compete in the individual annuities business primarily based on our ability to offer innovative product features. Our risk management allows us to offer these features and hedge or limit our exposure to certain of the related risks, utilizing a combination of product design elements, such as an automatic rebalancing element, and externally purchased hedging instruments. The automatic rebalancing element, included in the design of certain optional living benefits, transfers assets between variable investments selected by the annuity contractholder and investments that are expected to be more stable (e.g., a separate account bond portfolio), according to a static mathematical formula as discussed in more detail below. In 2009, we benefited from the impact of market disruptions on some of our competitors, certain of which implemented product modifications to increase pricing and scale back product features. Although we announced similar modifications in 2009, we expect our modified product offering will remain competitively positioned relative to our competitors going forward and expect will provide us an attractive risk and profitability profile, as all currently-offered optional living benefit features include the automatic rebalancing element. We also compete based on brand recognition, the breadth of our distribution platform and our customer service capabilities. Our annuity products are distributed through a diverse group of independent financial planners, wirehouses and banks, as well as through Prudential Agents. In the second half of 2006, we began distributing our annuity products through Allstate s proprietary distribution force, as discussed below.

On June 1, 2006, we acquired the variable annuity business of The Allstate Corporation, or Allstate, through a reinsurance transaction for $635 million of total consideration. Beginning June 1, 2006, the assets acquired and liabilities assumed and the results of operations of the acquired variable annuity business have been included in our consolidated financial statements. The acquisition increased our scale and third party distribution capabilities in the U.S., including access to the Allstate-affiliated broker dealer that distributes through Allstate s agency distribution force of nearly 15,000 independent contractors and financial professionals. The integration of the variable annuity business acquired from Allstate was completed during the second quarter of 2008.

Products

We offer variable annuities that provide our customers with tax-deferred asset accumulation together with a base death benefit and a full suite of optional guaranteed death and living benefits. The benefit features contractually guarantee the contractholder a return of no less than (1) total deposits made to the contract less any partial withdrawals (return of net deposits), (2) total deposits made to the contract less any partial withdrawals plus a minimum return (minimum return), and/or (3) the highest contract value on a specified date minus any withdrawals (contract value). These guarantees may include benefits that are payable in the event of death, annuitization or at specified dates during the accumulation period and withdrawal and income benefits payable during specified periods. Our latest optional living benefits guarantee, among other features, the ability to make withdrawals based on the highest daily contract value plus a minimum return, credited for a period of time. This highest daily guaranteed contract value is generally accessible through periodic withdrawals for the life of the contractholder, and not as a lump-sum surrender value.

Our variable annuity investment options provide our customers with the opportunity to invest in proprietary and non-proprietary mutual funds, frequently under asset allocation programs, and fixed-rate options. The investments made by customers in the proprietary and non-proprietary mutual funds generally represent separate account interests that provide a return linked to an underlying investment portfolio. The investments made in the fixed rate options are credited with interest at rates we determine, subject to certain minimums. We also offer fixed annuities that provide a guarantee of principal and interest credited at rates we determine, subject to certain

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contractual minimums. Certain investments made in the fixed-rate options of our variable annuities and certain fixed annuities impose a market value adjustment if the invested amount is not held to maturity. Based on the contractual terms the market value adjustment can be positive, resulting in an additional amount for the contractholder, or negative, resulting in a deduction from the contractholder s account value or redemption proceeds.

The primary risk exposures of our variable annuity contracts relate to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including equity market returns, interest rates, market volatility, timing of annuitization and withdrawals, contract lapses and contractholder mortality. The rate of return we realize from our variable annuity contracts will vary based on the extent of the differences between our actual experience and the assumptions used in the original pricing of these products. As part of our risk management strategy we hedge or limit our exposure to certain of these risks primarily through a combination of product design elements, such as an automatic rebalancing element, and externally purchased hedging instruments. Our returns can also vary by contract based on our risk management strategy, including the impact on any capital markets risks that we hedge, and the impact on that portion of our variable annuity contracts that benefit from the automatic rebalancing element.

The automatic rebalancing element, included in the design of certain optional living benefits, transfers assets between the variable investments selected by the annuity contractholder and, depending on the benefit feature, fixed income investments backed by our general account or a separate account bond portfolio. The transfers are based on a static mathematical formula which considers a number of factors, including the performance of the contractholder-selected investments. In general, negative investment performance results in transfers to fixed income investments backed by our general account or a separate account bond portfolio, and positive investment performance results in transfers back to contractholder-selected investments. Overall, the automatic rebalancing element is designed to help limit our exposure, and the exposure of the contractholders account value, to equity market risk and market volatility. Beginning in 2009, our latest offerings of optional living benefit features associated with variable annuity products all include an automatic rebalancing element, and in 2009 we discontinued any new sales of optional living benefit features without an automatic rebalancing element. Other product design elements we utilize for certain products to manage these risks include asset allocation and minimum issuance age requirements. For information regarding the account values and net amount at risk associated with contracts which include the automatic rebalancing element, see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities Variable Annuity Net Amount at Risk.

As mentioned above, in addition to our automatic rebalancing element, we also manage certain risks associated with our variable annuity products through our hedging programs. In our living benefit hedging program we purchase equity options and futures as well as interest rate derivatives to hedge certain optional living benefit features accounted for as embedded derivatives against changes in equity markets, interest rates, and market volatility. In the second quarter of 2009, we began the expansion of our hedging program to include a portion of the market exposure related to the overall capital position of our variable annuity business, including the impact of certain statutory reserve exposures. These capital hedges primarily consist of equity-based total return swaps, as well as interest rate derivatives, that are designed to partially offset changes in our capital position resulting from market driven changes in certain living and death benefit features of our variable annuity products. We assess the composition of the hedging program on an ongoing basis.

Marketing and Distribution

Prudential Agents

Our Prudential Agents distribute variable annuities with proprietary and non-proprietary investment options, as well as fixed annuities. For additional information regarding our Prudential Agent force, see U.S. Individual Life and Group Insurance Division Individual Life.

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Third Party Distribution

Our individual annuity products are also offered through a variety of third party channels, including independent brokers, wirehouses, banks, and, beginning in the second half of 2006, Allstate s proprietary distribution force. Our distribution efforts are supported by a network of 273 internal and external wholesalers, as well as 34 new business development specialists as of December 31, 2009.

Underwriting and Pricing

We earn asset management and other fees determined as a percentage of the average assets of the proprietary mutual funds in our variable annuity products. We also earn mortality and expense fees and other fees for various insurance-related options and features, including optional guaranteed death and living benefit features, based on the average daily net asset value of the annuity separate accounts or the amount of guaranteed value under the optional living benefit, as applicable. We receive administrative service fees from many of the proprietary and non-proprietary mutual funds. We price our variable annuities, including optional guaranteed death and living benefits, based on an evaluation of the risks assumed and considering applicable hedging costs. We price our fixed annuities as well as the fixed-rate options of our variable annuities based on assumptions as to investment returns, expenses and persistency. Competition also influences our pricing. We seek to maintain a spread between the return on our general account invested assets and the interest we credit on our fixed annuities and the fixed rate options of our variable annuities. For assets transferred to fixed income investments backed by our general account pursuant to the automatic rebalancing element discussed above, we earn a spread for the difference between the return on our general account invested assets and the interest credited, similar to our fixed annuities. To encourage persistency, most of our variable and fixed annuities have declining surrender or withdrawal charges for a specified number of years. In addition, the living benefit features of our variable annuity products encourage persistency because the potential value of the living benefit is fully realized only if the contract persists.

Reserves

We establish and carry as liabilities actuarially determined reserves for future policy benefits that we believe will meet our future obligations for our in force annuity contracts, including the minimum death benefit and living benefit guarantee features of some of these contracts. We base these reserves on assumptions we believe to be appropriate for investment yield, persistency, withdrawal rates, mortality rates, expenses and margins for adverse deviation. Certain of the living benefit guarantee features on variable annuity contracts are accounted for as embedded derivatives and are carried at fair value. The fair values of these benefit features are calculated as the present value of future expected benefit payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. For variable and fixed annuity contracts, we establish liabilities for policyholders account balances that represent cumulative gross premium payments plus credited interest and/or fund performance, less withdrawals, expenses and mortality charges.

Retirement

Our Retirement segment, which we refer to in the marketplace as Prudential Retirement, provides retirement investment and income products and services to retirement plan sponsors in the public, private, and not-for-profit sectors. Our full service business provides recordkeeping, plan administration, actuarial advisory services, tailored participant education and communication services, trustee services and institutional and retail investments. We service defined contribution, defined benefit and non-qualified plans. For clients with combinations of defined contribution, defined benefit and non-qualified plans, we offer integrated recordkeeping services. For participants leaving our clients plans, we provide a broad range of rollover products through our broker-dealer, Prudential Investment Management Services LLC, our bank, Prudential Bank & Trust, FSB, and certain of our insurance companies. In addition, in our institutional investment products business, we offer guaranteed investment contracts, or GICs, funding agreements, institutional and retail notes, structured settlement annuities, and group annuities, for defined contribution plans, defined benefit plans, non-qualified entities, and individuals. Results of our institutional investment products business include proprietary spread lending activities where we borrow on a secured or unsecured basis to support investments on which we earn a spread between the asset yield and liability cost.

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The Retirement segment competes with other large, well-established insurance companies, asset managers, recordkeepers and diversified financial institutions. In our full service business, we compete primarily based on pricing, the breadth of our service and investment offerings, investment performance, and our ability to offer product features to meet the retirement income needs of our clients. In our institutional investment products business, we compete primarily based on our pricing and structuring capabilities, which are supported by the claims-paying ratings of our U.S. insurance companies.

In recent years we have completed two acquisitions which have increased our scale, expanded our sales and distribution capabilities and broadened our array of product and service offerings in our full service business.

Union Bank of California s Retirement Business

On December 31, 2007, we acquired a portion of the retirement business of Union Bank of California, N.A. for $103 million of cash consideration. This acquisition increased the scale of our product and service offerings and expanded our sales and distribution capabilities on the west coast of the U.S. The integration of this business was completed in 2008.

MullinTBG

On October 10, 2008 we acquired MullinTBG Insurance Agency Services, LLC and related entities, or MullinTBG, a provider of executive benefit solutions and financing strategies, including administration of non-qualified executive benefit plans. This acquisition broadened our array of product offerings, expanded our sales and distribution capabilities and enhanced our position as a single source servicer of both qualified and non-qualified retirement and deferred compensation plans.

Products and Services

Full Service

Our full service business offers plan sponsors and their participants a broad range of products and services to assist in the delivery and administration of defined contribution, defined benefit, and non-qualified retirement and deferred compensation plans, including recordkeeping and administrative services, comprehensive investment offerings and consulting services to assist plan sponsors in managing fiduciary obligations. We offer as part of our investment products a variety of general and separate account stable value products, as well as retail mutual funds and institutional funds advised by affiliated and non-affiliated investment managers. In addition, certain products that are designed for the benefit of participants are marketed and sold on an investment-only basis through our full service distribution channels. Revenue is generated from asset-based fees, recordkeeping and other advisory fees. For certain stable value products discussed below, profits result from the spread between the rate of return on investments we make and the interest rates we credit, less expenses. In connection with non-qualified retirement and deferred compensation plans, we earn recordkeeping fees and commissions on products sold to finance the sponsor s plan liability. Prudential Financial s asset management units earn fees from management of general account assets supporting retirement products, including stable value products as discussed below and, to the extent these units are selected to manage client assets associated with fee-based products, they also earn asset management fees related to those assets.

Our full service general account stable value products contain an obligation to pay interest at a specified rate for a specific period of time and to repay account balances or market value upon contract termination. These stable value general account products are either fully or partially participating, with annual or semi-annual rate resets giving effect to previous investment experience. We earn administrative fees for providing recordkeeping and other administrative services for these products. In addition, we earn profits from partially participating general account products from the spread between the rate of return on the investments we make and the interest rates we credit, less expenses.

We also offer fee-based separate account products, through which customer funds are held in either a separate account or a client-owned trust. These products generally pass all of the investment results to the customer. In certain cases, these contracts are subject to a minimum interest rate general account guarantee.

Additionally, we offer guaranteed minimum withdrawal benefits associated with certain defined contribution accounts, and hedge certain of the related risks utilizing externally purchased hedging instruments. We earn administrative fees for these separate account products.

Our full service offerings are supported by participant communications and education programs, and a broad range of plan consulting services, including nondiscrimination testing, plan document services, signature-ready documents for required filings, and full actuarial support for defined benefit plans. Additional services include non-qualified deferred compensation plan administration, including executive benefit solutions and financing strategies, investment advisory services, and merger and acquisition support.

In addition, we offer a broad range of brokerage and banking solutions, including rollover individual retirement accounts, or IRA s, mutual funds, and guaranteed income products. Our rollover products and services are marketed to participants who terminate or retire from organizations that are clients of our retirement plan recordkeeping services.

Institutional Investment Products

The institutional investment products business primarily offers products to the stable value and payout annuity markets. In addition to the profits discussed below, Prudential Financial s asset management units earn fees from management of general account assets supporting retirement products and, to the extent these units are selected to manage client assets associated with fee-based products, they also earn asset management fees related to those assets.

Stable Value Markets. Our stable value markets area manufactures general account investment-only products for use in retail and institutional capital markets and qualified plan markets. Our primary investment-only general account products are GICs, funding agreements, retail notes and institutional notes. We also offer investment-only, fee-based stable value products, through which customers funds are held in either a separate account or a client-owned trust. We pass investment results through to the customer, subject to a minimum interest rate general account guarantee. These investment-only products are marketed and sold through our institutional investment products distribution channels. This unit also manufactures general and separate account stable value products and stable value products through which customer funds are held in client-owned trusts for business marketed and sold through our full service distribution channels, the results of which are reflected in the full service business.

Our investment-only general account products offered within this market contain an obligation to pay interest at a specified rate and to repay principal at maturity or following contract termination. Because these obligations are backed by our general account, we bear the investment and asset/liability management risk associated with these contracts. Generally, profits from our general account products result from the spread between the rate of return on the investments we make and the interest rates we credit, less expenses. The credited interest rates we offer and the volume of issuance are impacted by many factors, including the claims-paying ratings of our U.S. insurance companies.

Payout Annuity Markets. Our payout annuity markets area offers traditional general and separate account products designed to provide a predictable source of monthly income, generally for the life of the participant, such as structured settlements, voluntary income products and close-out annuities, which fulfill the payment guarantee needs of the personal injury lawsuit settlement market, the distribution needs of defined contribution participants and the payment obligations of defined benefit plans, respectively. With our general account products, the obligation to make annuity payments to our annuitants is backed by our general account assets, and we bear all of the investment, mortality, retirement, asset/liability management, and expense risk associated with these contracts. Our profits from structured settlements, voluntary income products and close-out annuities result from the emerging experience related to investment returns, timing of retirements, mortality, and the level of expenses being more or less favorable than assumed in the original pricing. The volume of issuance of these products is impacted by many factors, including the claims-paying ratings of our U.S. insurance companies.

We also offer participating separate account annuity contracts, which are fee-based products that cover payments to retirees to be made by defined benefit plans. These contracts permit a plan sponsor to retain the risks and rewards of investment and actuarial results while receiving a general account guarantee for all annuity payments covered by the contract.

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Marketing and Distribution

We distribute our products through a variety of channels. In our full service business, our dedicated sales and support teams manage our distribution efforts in offices across the country. We sell our products and services through third-party financial advisors, brokers, and benefits consultants and, to a lesser extent, directly to plan sponsors. We market our rollover IRA products and services to plan participants primarily through a centralized service team.

In our stable value markets area within our institutional investment products business, we distribute GICs and funding agreements to institutional investors through our direct sales force and through intermediaries. We also have a global Funding Agreement Notes Issuance Program, or FANIP, pursuant to which a Delaware statutory trust issues medium-term notes secured by funding agreements issued to the trust by Prudential Insurance. The medium-term notes are sold to institutional investors through intermediaries under Rule 144A and Regulation S of the Securities Act of 1933, as amended (Securities Act). In addition, a portion of Prudential Financial s SEC-registered medium-term notes program is allocated for sales to retail investors. The proceeds from the sale of the retail notes may be used by Prudential Financial to purchase funding agreements from Prudential Insurance. Proceeds from the retail notes may also be used for general corporate purposes. In February 2009, Prudential Insurance also began issuing funding agreements directly to the Federal Home Loan Bank of New York.

In our payout annuity markets area within our institutional investment products business, structured settlements are distributed through structured settlement specialists. Voluntary income products are distributed through the defined contribution portion of our full service business, directly to plan sponsors, or as part of annuity shopping services. Close-out annuities and participating separate account annuity products are typically distributed through actuarial consultants and third-party brokers.

Underwriting and Pricing

We set our rates for our stable value products within our full service and institutional investment products businesses using pricing models that consider the investment environment and our risk, expense and profitability assumptions. In addition, for products within our payout annuity markets area, our models also use assumptions for mortality and early retirement risks. Upon sale of a product, we adjust the duration of our asset portfolio and lock in the prevailing interest rates. Management continuously monitors cash flow experience and works closely with our Asset Liability Management and Risk Management groups to review performance and ensure compliance with our investment policies.

Reserves

We establish reserves for future policy benefits and policyholders account balances to recognize our future obligations for our products. Our liabilities for accumulation products generally represent cumulative policyholder account balances and additional reserves for investment experience that will accrue to the customer but have not yet been reflected in credited rates. Our liabilities for products within our payout annuity markets area represent the present value of future guaranteed benefits plus maintenance expenses and are based on our actuarial assumptions. We perform a cash flow analysis in conjunction with determining our reserves for future policy benefits.

Asset Management

The Asset Management segment provides a broad array of investment management and advisory services by means of institutional portfolio management, mutual funds, asset securitization activity and other structured products, and proprietary investments. These products and services are provided to the public and private marketplace, as well as our U.S. Individual Life and Group Insurance division, International Insurance and Investments division and Individual Annuities and Retirement segments, as well as the Closed Block Business.

The Asset Management segment competes with numerous asset managers and other financial institutions. In the markets for our products, we compete based upon investment performance, investment process, investment talent and brand recognition. We earn asset management fees which are typically based upon a percentage of assets under management. In certain asset management fee arrangements, we also receive performance based incentive fees when the return on assets under management exceeds certain benchmark returns or other performance targets. Transaction fees are earned as a percentage of the transaction price associated with the sale or purchase of assets in certain funds, primarily related to real estate. In addition, we earn commercial mortgage servicing fees and investment results from proprietary investing.

Operating Data

The following tables set forth the assets under management of the investment management and advisory services group of our Asset Management segment at fair value by asset class and source as of the dates indicated.

	December 31, 2009			
	Equity	Fixed Income(3)	Real Estate	Total
	(in billions)			
Institutional customers(1)	$ 47.9	$ 120.3	$ 20.2	$ 188.4
Retail customers(2)	58.2	24.6	1.6	84.4
General account	3.7	179.3	1.0	184.0
Total	$ 109.8	$ 324.2	$ 22.8	$ 456.8

	December 31, 2008			
	Equity	Fixed Income(3)	Real Estate	Total
	(in billions)			
Institutional customers(1)	$ 38.6	$ 96.8	$ 25.8	$ 161.2
Retail customers(2)	38.3	21.5	1.8	61.6
General account	3.2	168.6	0.8	172.6
Total	$ 80.1	$ 286.9	$ 28.4	$ 395.4

	December 31, 2007			
	Equity	Fixed Income(3)	Real Estate	Total
	(in billions)			
Institutional customers(1)	$ 56.7	$ 92.0	$ 27.7	$ 176.4
Retail customers(2)	65.9	19.5	1.2	86.6
General account	4.5	170.0	1.0	175.5
Total	$ 127.1	$ 281.5	$ 29.9	$ 438.5

(1) Consists of third party institutional assets and group insurance contracts.
(2) Consists of individual mutual funds and both variable annuities and variable life insurance assets in our separate accounts. This also includes funds invested in proprietary mutual funds through our defined contribution plan products. Fixed annuities and the fixed rate options of both variable annuities and variable life insurance are included in our general account.
(3) Includes private fixed income and commercial mortgage assets of institutional customers of $10.1 billion as of December 31, 2009, $9.1 billion as of December 31, 2008 and $9.7 billion as of December 31, 2007, and private fixed income and commercial mortgage assets in our general account of $64.5 billion, $61.7 billion and $62.4 billion, as of those dates, respectively.

Products and Services

In our asset management areas, we offer the following products and services:

Public Fixed Income Asset Management

Our public fixed income organization manages fixed income portfolios for U.S. and international, institutional and retail clients, as well as for our general account. Our products include traditional broad market

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fixed income strategies and single-sector strategies. We manage traditional asset liability strategies, as well as customized asset liability strategies. We also manage hedge strategies, as well as collateralized debt obligations. We also serve as a non-custodial securities lending agent.

Strategies are managed by seasoned portfolio managers with securities selected by our nine sector specialist teams: Corporate, High Yield, Bank Loan, Emerging Markets Debt, U.S. Liquidity (U.S. government and mortgage-backed securities), Money Market, Municipal Bonds, Global and Structured Product. A separate team is dedicated to securities lending activities. All strategies are managed using a research-based approach, supported by significant credit research, quantitative research, and risk management organizations.

Public Equity Asset Management

Our public equity organization provides discretionary and non-discretionary asset management services to a wide range of clients. We manage a broad array of publicly-traded equity asset classes using various investment styles. The public equity organization is comprised of two wholly-owned registered investment advisors, Jennison Associates LLC and Quantitative Management Associates LLC. Jennison Associates uses fundamental, team-based research to manage portfolios for institutional and private clients through separately managed accounts and commingled vehicles, including mutual funds through subadvisory relationships. Jennison Associates also manages fixed income portfolios for institutional clients through discretionary accounts and commingled vehicles, including mutual funds through subadvisory relationships. Quantitative Management Associates manages equity and asset allocation portfolios for institutional and subadvisory clients, including mutual funds, using proprietary quantitative models tailored to meet client objectives.

Private Fixed Income Asset Management

Our private fixed income organization provides asset management services by investing predominantly in private placement investment grade debt securities, as well as private placement below investment grade debt securities, and mezzanine debt financing. These investment capabilities are utilized by our general account and institutional clients through direct advisory accounts, insurance company separate accounts, or private fund structures. A majority of the private placement investments are directly originated by our investment staff.

Commercial Mortgage Origination and Servicing

Our commercial mortgage operations provide mortgage origination, asset management and servicing for our general account, institutional clients, and government sponsored entities such as Fannie Mae, the Federal Housing Administration, and Freddie Mac. We also originate shorter-term interim loans for spread lending that are collateralized by assets generally under renovation or lease up. Our interim loans are generally paid off through refinancing or the sale by the borrower of the underlying collateral. These loans are inherently more risky than those collateralized by properties that have already stabilized. Due to unfavorable market conditions experienced in late 2008 and the inherent risk of these loans, we suspended the origination of interim loans in the third quarter of 2008. As of December 31, 2009, the principal balance of interim loans totaled $1.7 billion.

Real Estate Asset Management

Our global real estate organization provides asset management services for single-client and commingled real estate portfolios and manufactures and manages a variety of real estate investment vehicles investing in private and public real estate, primarily for institutional clients in 19 offices worldwide. Our domestic and international real estate investment vehicles range from fully diversified open-end funds to specialized closed-end funds that invest in specific types of properties or specific geographic regions or follow other specific investment strategies. Our global real estate organization has an established presence in the U.S., Europe, Asia and Latin America.

Proprietary Investments

We make proprietary investments in real estate, as well as fixed income, public equity and real estate securities, including controlling interests. The fair value of these investments was approximately $1.0 billion and $1.5 billion as of December 31, 2009 and 2008, respectively. For more information on these investments, see

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Management s Discussion and Analysis of Financial Condition and Results of Operations U.S. Retirement Solutions and Investment Management Division Asset Management. Certain of these investments are made primarily for purposes of co-investment in our managed funds and structured products. Other proprietary investments are made with the intention to sell or syndicate to investors, including our general account, or for placement in funds and structured products that we offer and manage (seed investments). We also make loans to, and guarantee obligations of our managed funds that are secured by equity commitments from investors or assets of the funds.

Mutual Funds and Other Retail Services

We manufacture, distribute and service investment management products primarily utilizing proprietary asset management expertise in the U.S. retail market. Our products are designed to be sold primarily by financial professionals including both Prudential Agents and third party advisors. We offer a family of retail investment products consisting of 39 mutual funds as of December 31, 2009. These products cover a wide array of investment styles and objectives designed to attract and retain assets of individuals with varying objectives and to accommodate investors changing financial needs.

Additionally, we offer banks and other financial services organizations a wealth management platform, which permits such banks and organizations to provide their retail clients with services including asset allocation, investment manager research and access, clearing, trading services, and performance reporting.

Marketing and Distribution

We provide investment management services for our institutional customers through a proprietary sales force organized by asset management business. Each asset management business has an independent marketing and client service team working with clients. Institutional asset management services are also offered through the Retirement segment of the U.S. Retirement Solutions and Investment Management division.

Most of the retail customer assets under management are invested in our mutual funds and our variable annuities and variable life insurance products. These assets are gathered by the U.S. Individual Life and Group Insurance division, the International Insurance and Investments division, the Individual Annuities segment and third party networks. Additionally, we work with third party product manufacturers and distributors to include our investment options in their products and platforms.

We also provide investment management services across a broad array of asset classes for our general account, as described under Management s Discussion and Analysis of Financial Condition and Results of Operations Realized Investment Gains and Losses and General Account Investments General Account Investments.

U.S. Individual Life and Group Insurance Division

The U.S. Individual Life and Group Insurance division conducts its business through the Individual Life and Group Insurance segments.

Individual Life

Our Individual Life segment manufactures and distributes individual variable life, term life and universal life insurance products primarily to the U.S. mass middle, mass affluent and affluent markets. In general, we consider households with investable assets or annual income in excess of $100,000 to be mass affluent and households with investable assets in excess of $250,000 to be affluent in the U.S. market. Our life products are distributed through independent third party distributors and Prudential Agents.

The Individual Life segment competes with large, well-established life insurance companies. In the markets for our products, we compete primarily based upon price, service, distribution channel relationships, brand recognition and financial stability.

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Certain fixed expenses are allocated between the Individual Life segment and the Closed Block Business based upon allocation methodologies consistent with U.S. GAAP reporting. However, as policies in force within the Closed Block Business continue to mature or terminate, the level of expenses to be allocated to the Closed Block Business will decrease, potentially increasing the expense allocations to the Individual Life segment.

Products

Our primary insurance products are variable life, term life and universal life and represent 43%, 48% and 8%, respectively, of our face amount of individual life insurance, net of reinsurance, in force at the end of 2009. In recent years, as term life insurance sales have increased and variable life insurance sales have decreased, we have seen term life insurance become a larger percentage of our net in force.

Variable Life Insurance

We offer a number of individual variable life insurance products that provide a return linked to an underlying investment portfolio selected by the policyholder while providing the policyholder with the flexibility to change both the death benefit and premium payments. The policyholder generally has the option of investing premiums in a fixed rate option that is part of our general account and/or investing in separate account investment options consisting of equity and fixed income funds. Funds invested in the fixed rate option will accrue interest at rates we determine that vary periodically based on our portfolio rate. In the separate accounts, the policyholder bears the fund performance risk. Each product provides for the deduction of charges and expenses from the customer s contract fund. In July of 2009, we launched a new variable product that has the same basic features as our variable universal life product but also allows for a more flexible guarantee against lapse where policyholders can select the guarantee period. In the affluent market, we offer a private placement variable universal life product, which also utilizes investment options consisting of equity and fixed income funds. While variable life insurance continues to be an important product, marketplace demand continues to favor term and universal life insurance.

A significant portion of our Individual Life insurance segment s profits are associated with our large in force block of variable policies. Profit patterns on these policies are not level and as the policies age, insureds generally begin paying reduced policy charges. This, coupled with net policy count and insurance in force runoff over time, reduces our expected future profits from this product line. Asset management fees and mortality and expense fees are a key component of variable life product profitability and vary based on the average daily net asset value. Due to policyholder options under some of the variable life contracts, lapses driven by unfavorable equity market performance may occur on a quarter lag with the market risk during this lag being borne by the Company.

Term Life Insurance

We offer a variety of term life insurance products that provide coverage for a specified time period. Most term products include a conversion feature that allows the policyholder to convert the policy into permanent life insurance coverage. We also offer term life insurance that provides for a return of premium if the insured is alive at the end of the level premium period. There continues to be significant demand for term life insurance protection.

Individual Life profits from term insurance are not expected to directly correlate, from a timing perspective, with the increase in term insurance in force because of uneven product profitability patterns, as well as the costs of our ongoing capital management activities.

Universal Life Insurance

We offer universal life insurance products that feature a fixed crediting rate that varies periodically based on portfolio returns, flexible premiums and a choice of guarantees against lapse. Universal life policies provide for the deduction of charges and expenses from the policyholders contract fund.

Individual Life profits from universal life insurance are impacted by mortality and expense margins, interest spread on policyholder funds as well as the net interest spread on capital management activities.

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Across all of our products we also offer a living benefits option that allows insureds that are diagnosed with a terminal illness to receive a portion of their life insurance benefit upon diagnosis, in advance of death, to use as needed. Also, the majority of claim amounts are deposited into a retained asset account from which the beneficiary may withdraw the proceeds at any time.

Marketing and Distribution

Third Party Distribution

Our individual life products are offered through a variety of third party channels, including independent brokers, general agencies and producer groups. We focus on sales through independent intermediaries who provide life insurance solutions to protect individuals, families and businesses and support estate and wealth transfer planning. The life insurance products offered are generally the same as those available through Prudential Agents. Our third party efforts are supported by a network of internal and external wholesalers. We also offer a simplified-issue term life insurance policy and a single-premium universal life insurance policy available to customers of select banks and other financial institutions.

Prudential Agents

Our Prudential Agents distribute Prudential variable, term and universal life insurance, variable and fixed annuities, and investment and other protection products with proprietary and non-proprietary investment options as well as selected insurance and investment products manufactured by others. The number of Prudential Agents was 2,447, 2,360 and 2,425 at December 31, 2009, 2008 and 2007, respectively. Over the same period, average agent productivity, based upon average commissions on new sales of all products by Prudential Agents, has decreased from $60,500 for 2007 to $50,830 for 2009 due to unstable market conditions.

Prudential Agents sell life insurance products primarily to customers in the U.S. mass and mass affluent markets, as well as small business owners. Other than certain training allowances or salary paid at the beginning of their employment, we pay Prudential Agents on a commission basis for the products they sell. In addition to commissions, Prudential Agents receive the employee benefits that we provide to other Prudential employees generally, including medical and disability insurance, an employee savings program and qualified retirement plans.

Prior to the sale of our property and casualty insurance operations in 2003, the Individual Life segment had been compensated for property and casualty insurance products sold through Prudential Agents. Following the sale, Prudential Agents have continued access to non-proprietary property and casualty products under distribution agreements entered into with the purchasers of these businesses, as well as other non-proprietary product providers; therefore, the Individual Life segment continues to be compensated for sales of these products.

The compensation arrangements for certain non-proprietary products provide an opportunity for additional compensation to the Individual Life segment based on multi-year profitability of the products sold. This additional compensation is not predictable since the multi-year profitability of the products is subject to substantial variability and, additionally, the compensation arrangements are periodically renegotiated which will affect the amount of additional compensation we are eligible to receive. The largest of these arrangements was revised effective in late 2008 and the profit opportunities will be significantly reduced in 2010 and beyond.

As mentioned above, the Individual Life segment distributes products offered by the Annuities, Group Insurance and Asset Management segments and charges these businesses a market rate to distribute these products. These charges may be more or less than the associated distribution costs, and any profit or loss is included in the results of the Individual Life segment.

Underwriting and Pricing

For our fully underwritten life insurance, underwriters follow detailed and uniform policies and procedures to assess and quantify the risk of our individual life insurance products. Depending on the age of the applicant

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and amount of insurance requested, we require the applicant to take a variety of underwriting tests, such as medical examinations, electrocardiograms, blood tests, urine tests, and gather information such as physician records and investigative reports. We base premiums and policy charges for individual life insurance on expected death benefits, surrender benefits, expenses and required reserves. We use assumptions for mortality, interest, expenses, policy persistency, and premium payment pattern in pricing policies. Some of our policies are fully guaranteed. Others have current premiums/charges and interest credits that we can change subject to contractual guarantees. We routinely update the interest crediting rates on our universal life policies and on the fixed account of our variable life policies. In resetting these rates, we consider the returns on our portfolios supporting these policies, current interest rates, the competitive environment and our profit objectives.

Our operating results are impacted by differences between actual mortality and persistency experience and the assumptions used in pricing these policies and, as a result, can fluctuate from period to period. Our Individual Life segment employs capital management activities, including financing of statutory reserves required for certain term and universal life insurance policies, to maximize product returns and enable competitive pricing. Capital management activities are impacted by the cost of financing and our ability to access the capital markets, and insurance regulations. For a more detailed discussion of our capital management activities see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Financing Activities.

Reserves

We establish and carry as liabilities actuarially-determined reserves for future policy benefits that we believe will meet our future obligations for our in force life policies. We base these reserves on assumptions we believe to be appropriate for investment yield, persistency, expenses, mortality and morbidity rates, as well as margins for adverse deviation. For variable and interest-sensitive life insurance contracts, we establish liabilities for policyholders account balances that represent cumulative gross premium payments plus credited interest and/or fund performance, less withdrawals, expenses and mortality charges.

Reinsurance

The Individual Life segment uses reinsurance as a means of managing mortality volatility and risk capacity, which can impact product profitability based on mortality experience. Since 2000, we have reinsured a significant portion of the mortality risk we assume under our newly sold individual life insurance policies. While we reinsure most of our new policies, in some instances reinsurance is unavailable because the reinsurers have reached their capacity limits for a particular insured. If we determine, based on our underwriting policies and procedures, that the risk is acceptable we will issue these policies on a non-reinsured basis up to a maximum exposure of $30 million on a single life and $35 million on a second-to-die policy. In some instances, lower limits apply. For instance, when no reinsurance is available on newly-issued term life policies, we limit our maximum exposure to $10 million.

Group Insurance

Our Group Insurance segment manufactures and distributes a full range of group life, long-term and short-term group disability, long-term care, and group corporate- and trust-owned life insurance in the U.S. primarily to institutional clients for use in connection with employee and membership benefits plans. Group Insurance also sells accidental death and dismemberment and other ancillary coverages and provides plan administrative services in connection with its insurance coverages. Beginning in 2010, Group Insurance will also offer preferred provider and indemnity dental coverage plans to clients.

The Group Insurance segment competes with other large, well-established life and health insurance providers in the U.S. markets, and is a top provider of both group life and disability insurance. The markets in which we compete are mature markets, hence we compete primarily based on strong brand recognition, service capabilities, customer relationships, financial stability and range of product offerings. Due to the large number of competitors, price competition is strong. The majority of our premiums are derived from large corporations, affinity groups or other organizations, such as those with over 10,000 insured individuals. We have a strong portfolio of products and the ability to meet complex needs of the large clients, providing opportunities for continuing stabilized premiums and growth.

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Products

Group Life Insurance

We offer group life insurance products including employer-pay (basic) and employee-pay (voluntary) coverages. This portfolio of products includes basic and supplemental term life insurance for employees, optional term life insurance for dependents of employees and universal life insurance. We also offer group variable universal life insurance, basic and voluntary accidental death and dismemberment insurance and business travel accident insurance. Many of our employee-pay coverages include a portability feature, allowing employees to retain their coverage when they change employers or retire. We also offer a living benefits option that allows insureds that are diagnosed with a terminal illness to receive a portion of their life insurance benefit upon diagnosis, in advance of death, to use as needed. Also, the majority of claim payments are deposited into a retained asset account from which the beneficiary may withdraw the proceeds at any time.

Group Disability Insurance

We offer short- and long-term group disability insurance, which protects against loss of wages due to illness or injury. Short-term disability generally provides a weekly benefit amount (typically 50% - 70% of the insured s earned income up to a specified maximum benefit) for three to six months, and long-term disability covers the period after short-term disability ends. Long-term disability insureds may receive total or partial disability benefits. Most of these policies begin providing benefits following a 90- or 180-day waiting period (during which short-term disability is provided) and generally continue providing benefits until the insured reaches normal retirement age. Long-term disability benefits are paid monthly and are limited to a portion, generally 50% - 70%, of the insured s earned income up to a specified maximum benefit. Our approach to disability claims management incorporates a focus on early intervention, return-to-work programs and successful rehabilitation of claimants. We also offer absence management services which assist employers in managing employee absences and workplace productivity including administrative tracking and management for certain employee absence events. The absence management services we provide can also be integrated with our short- and long-term disability management services.

Other

We offer individual and group long-term care insurance and group corporate- and trust-owned life insurance. Long-term care insurance protects the insured from the costs of an adult day care center, a nursing home or similar live-in care situation or a home health or a personal care aide. Group corporate- and trust-owned life insurance are group variable life insurance contracts typically used by large corporations to fund deferred compensation plans and benefit plans for retired employees.

Marketing and Distribution

Group Insurance has its own dedicated sales force that is organized around products and market segments and distributes primarily through employee benefits brokers and consultants. Group Insurance also distributes individual long-term care products through Prudential Agents as well as third party brokers and agents.

Underwriting and Pricing

We have developed standard rating systems for each product line in the Group Insurance segment based on our past experience and relevant industry experience. For our earlier generation long-term care products, experience data was very limited. As the long-term care industry is maturing, the information available, both our own and industry experience, for use in underwriting has improved. We are not obligated to accept any application for a policy or group of policies from any distributor. We follow standard underwriting practices and procedures. If the coverage amount exceeds certain prescribed age and amount limits, we may require a prospective insured to submit evidence of insurability.

We determine premiums on some of our policies on a retrospective experience-rated basis, in which case the policyholder bears some of the risk or receives some of the benefit associated with claim experience fluctuations during the policy period. We base product pricing of group insurance products on the expected pay-out of benefits that we calculate using assumptions for mortality, morbidity, interest, expenses and persistency, depending upon the specific product features.

Some policies are not eligible to receive experience-based refunds. The adequacy of our pricing of these policies determines their profitability during the rate guarantee period. In addition, our profitability is subject to fluctuation period to period, based on the differences between actual mortality and morbidity experience and the assumptions used in pricing our policies. However, we anticipate that over the rate guarantee period we will achieve mortality and morbidity levels more closely aligned with the assumptions used in pricing our policies. Market demand for multiple year rate guarantees for new policies increases the risk associated with unanticipated changes in experience patterns as well as deviations from expense and interest rate assumptions.

We routinely make pricing adjustments, when contractually permitted that take into account the emerging experience on our group insurance products. While there can be no assurance, we expect these actions, as well as pricing discipline in writing new business, will allow us to maintain benefits ratios that are consistent with our profit objectives.

Reserves

We establish and carry as liabilities actuarially-determined reserves that we believe will be adequate to meet our future policyholder benefit obligations. We base these reserves on actuarially-recognized methods using morbidity and mortality tables in general use in the U.S., which we modify to reflect our actual experience when appropriate. Reserves also include claims reported but not yet paid, and claims incurred but not yet reported. We also establish a liability for policyholders account balances that represent cumulative deposits plus credited interest and/or fund performance, less withdrawals, expenses and cost of insurance charges as applicable.

International Insurance and Investments Division

The International Insurance and Investments division conducts its business through the International Insurance and International Investments segments.

International Insurance

Our International Insurance segment manufactures and distributes individual life insurance products to the mass affluent and affluent markets in Japan, Korea and other countries outside the U.S. through its Life Planner operations. In addition, we offer similar products to the broad middle income market across Japan through Life Advisors, who are associated with our separately-operated Gibraltar Life Insurance Company, Ltd., or Gibraltar Life, operation, which we acquired in April 2001. We commenced sales in non-U.S. markets through our Life Planner operations, as follows: Japan, 1988; Taiwan, 1990; Italy, 1990; Korea, 1991; Brazil, 1998; Argentina, 1999; Poland, 2000; and Mexico, 2006. We continue to explore opportunities for a more diverse mix of business including an increased focus on the international retirement market.

We continue to seek opportunities for expansion into high-growth markets in targeted countries, such as in China and India. During 2007, we entered into a joint venture in India where we have a 26% interest, the maximum currently allowed by regulation in India. The joint venture received its insurance license in June 2008 and commenced sales of life insurance products shortly thereafter. In addition, we also have an investment in China, through a consortium of investors that holds a minority interest in China Pacific Insurance (Group) Co., Ltd. In December 2009, China Pacific Insurance (Group) Co., Ltd. listed its shares on the Hong Kong exchange. The consortium of investors agreed not to sell its shares before one year from the listing. As a result, holdings by the consortium may be sold beginning in December 2010.

In certain countries where we operate, particularly Japan and Korea, our products are highly regulated and, as a result, premium levels may not vary significantly among competitors. Therefore, we generally compete more on service provided to the customers than on price. In our operations other than Gibraltar Life and our new joint venture in India, we compete by focusing primarily on a limited market using our Life Planner model to offer

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high quality service and needs-based protection products. The success of our model in some markets makes us vulnerable to imitation and targeted recruitment of our sales force; thus the loss of highly-skilled and productive Life Planners to competitors is a significant competitive risk. We direct substantial efforts to recruit and retain our Life Planners by continuously evaluating and adjusting our training and compensation programs, where appropriate, to positively impact retention.

We manage each operation on a stand-alone basis with local management and sales teams, with oversight by senior executives based in Asia and Newark, New Jersey. Each operation has its own marketing, underwriting and claims, and investment management functions. In addition, large portions of the general account investment portfolios are managed by our International Investments segment. Each operation invests primarily in local currency securities, typically bonds issued by the local government or its agencies. In our larger operations, we have more diversified portfolios that also include investments in U.S. dollar denominated securities.

On May 1, 2009, our Gibraltar Life operations acquired Yamato Life, a Japanese life insurance company that declared bankruptcy in October 2008. Gibraltar Life served as the reorganization sponsor for Yamato and, under the reorganization agreement, acquired Yamato by contributing $72 million of capital to Yamato. Concurrent with our acquisition, substantially all of Yamato s insurance liabilities were restructured under a plan of reorganization to include special surrender penalties on existing policies. These surrender charges are 20% in the first year and will decline by 2% each year thereafter. Subsequent to the acquisition, we renamed the acquired company The Prudential Financial of Japan Life Insurance Company Ltd.

Products

We currently offer various traditional whole life, term life, and endowment policies, which provide for payment on the earlier of death or maturity, as well as retirement income life insurance products that combine an insurance protection element similar to that of whole life policies with a retirement income feature. In some of our operations we also offer certain health products with fixed benefits, as well as annuity products, which are primarily represented by U.S. dollar denominated fixed annuities in Gibraltar Life and variable annuities in Korea. In 2009, Gibraltar Life expanded its fixed annuity products, which now includes Australian dollar, Euro, and Yen denominated products. These contracts impose a market value adjustment if the invested amount is not held to maturity. The market value adjustment can be positive, resulting in an additional amount for the contractholder, or negative, resulting in a deduction from the contractholder s account value or redemption proceeds. We also offer variable life products in Japan, Korea, Taiwan and Poland and interest-sensitive life products in Japan, Korea, Taiwan and Argentina. Generally, our international insurance products are non-participating and denominated in local currency. Certain of our operations also offer U.S. dollar denominated products. Where non-local currency products are offered, both the premiums and benefits are guaranteed in the currency of the product offered.

Marketing and Distribution

The following table sets forth the number of Life Planners and Life Advisors for the periods indicated.

	As of December 31,		
	2009	**2008**	**2007**
Life Planners:			
Japan(1)	$ 3,094	$ 3,071	$ 3,068
All other countries	3,515	3,294	3,098
Life Advisors	6,398	6,330	6,264

Total	$ 13,007	$ 12,695	$ 12,430

(1) In 2009, 2008 and 2007, 152, 70 and 82 Life Planners, respectively, were transferred to Gibraltar. Of the transferred Life Planners, 54, 43, and 67, in 2009, 2008 and 2007, respectively, were transferred to support our efforts to expand our bank channel distribution. The remainder have joined either as Gibraltar Life Advisors or as an associate in the agency branch discussed below. The Life Planners transferred to support bank channel distribution and the agency branch are not included in the Life Advisor counts above.

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Life Planner Model

Our Life Planner model is significantly different from the way traditional industry participants offer life insurance in Japan and in most of the other countries where we do business. It also differs from the way we market through the Life Advisors of Gibraltar Life. We believe that our selection standards, training, supervision and compensation package are key to the Life Planner model and have helped our Life Planner operations achieve higher rates of agent retention, agent productivity and policy persistency than our local competitors. In general, we recruit Life Planners with:

- university degrees, so that the Life Planner will have the same educational background and outlook as the target customer;
- a minimum of two years of sales or sales management experience;
- no prior life insurance sales experience; and
- a pattern of job stability and success.

The Life Planner s objective is to sell protection-oriented life insurance products on a needs basis to mass affluent and affluent customers.

The number of Life Planners in our Japanese operations was stable, from December 31, 2008 to December 31, 2009. This includes the impact of the transfer of 152 Life Planners to Gibraltar during this period, primarily in support of our efforts to expand the bank channel distribution and to service orphaned policyholders discussed below. This also reflects the Company s efforts to further improve retention and the quality of Life Planners by more selective screening. The increase in Life Planners in all other countries, from December 31, 2008 to December 31, 2009, was driven by increases of 74, 63, 59, and 31 in Brazil, Taiwan, Poland, and Korea, respectively.

Life Advisors

Our Life Advisors are the proprietary distribution force for products offered by Gibraltar Life. Their focus is to provide individual protection products to the broad middle income market in Japan, particularly through relationships with affinity groups. Our Life Advisor operation is based on a variable compensation plan designed to improve productivity and persistency that is similar to compensation plans in our Life Planner operations. The number of Life Advisors has increased over the last few years, but the pace of growth in Life Advisors reflects the more disciplined hiring standards adopted in the latter half of 2007 to enhance retention and productivity.

During 2008, a new agency branch was created in Gibraltar Life that focuses on servicing our Japanese Life Planner policyholders that are not actively serviced by a Life Planner (i.e., orphaned policyholders). In addition to servicing orphaned policyholders, the agency branch promotes Gibraltar Life s products with a focus on retirement and medical insurance products.

Bank Distribution Channel

In 2006, Gibraltar Life commenced sales, primarily of U.S. dollar denominated fixed annuity products, through banks to supplement its core Life Advisor distribution channel. As of December 31, 2009, Gibraltar Life had distribution agreements with twenty banks. Beginning in early 2008, Gibraltar Life introduced a Yen-denominated variable annuity product in the bank channel, and began selling protection products, both Yen- and U.S. dollar denominated, as a result of the liberalization of banking regulations allowing for the sale of additional insurance products. During 2009, the fixed annuity product offering was expanded and now includes Australian dollar, Euro, and Yen denominated products. We continue to explore opportunities to expand our distribution capabilities through the bank channel, as well as other alternative channels.

Underwriting and Pricing

Our International Insurance segment is subject to substantial local regulation that is generally more restrictive for product offerings, pricing and structure than U.S. insurance regulation. Each International

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Insurance operation has its own underwriting department that employs variations of U.S. practices in underwriting individual policy risks. In setting underwriting limits, we also consider local industry standards to prevent adverse selection and to stay abreast of industry trends. In addition, we set underwriting limits together with each operation s reinsurers.

Pricing of individual life insurance products, particularly in Japan and Korea, is more regulated than in the U.S. Generally, premiums in each country are different for participating and non-participating products, but within each product type they are generally similar for all companies. Mortality and morbidity rates and interest rates that we use to calculate premiums are restricted by regulation on the basis of product type by country. Interest rates guaranteed under our insurance contracts may exceed the rates of return we earn on our investments, and, as a result, we may experience negative spreads between the rate we guarantee and the rate we earn on investments. Negative investment spreads had an adverse impact on the overall results of our Life Planner operations in recent years. The profitability on our products from these operations results primarily from margins on mortality, morbidity and expense charges. In addition, the profitability of our products is impacted by differences between actual mortality experience and the assumptions used in pricing these policies and, as a result, can fluctuate from period to period. However, we anticipate over the long-term to achieve the mortality levels reflected in the assumptions used in pricing in aggregate.

Reserves

We establish and carry as liabilities actuarially-determined reserves for future policy benefits that we believe will meet our future obligations. We base these reserves on assumptions we believe to be appropriate for investment yield, persistency, mortality and morbidity rates, expenses and margins for adverse deviation. For variable and interest-sensitive life products, as well as annuity products, we establish liabilities for policyholders account balances that represent cumulative gross premiums collected plus interest or investment results credited less surrenders, and charges for cost of insurance and administration fees.

The reserves for many of our products have long durations and, in some of these markets, it is difficult to find appropriate assets with the same long duration. Due to the long-term nature of many of the products we sell in Japan, we have historically sought to add duration exposure to our Japanese investment portfolio by employing various strategies, including investing in longer-term securities or, by entering into long-duration floating-to-fixed interest rate swaps. These strategies better support the characteristics of our long-dated product liabilities, and have resulted in higher portfolio yields. We continue to manage the interest rate risk profile of our businesses in the context of market conditions and relative opportunities, and will implement these hedging strategies to lengthen the duration of our Japanese investment portfolio as our assessment of market conditions dictates. As we do so, the impact to our portfolio yields upon the resumption of these strategies will depend on the then current interest rate environment.

Reinsurance

International Insurance reinsures portions of its insurance risks with both selected third party reinsurers and Prudential Insurance under reinsurance agreements primarily on a yearly renewable term basis. International Insurance also buys catastrophe reinsurance that covers multiple deaths from a single occurrence in our Life Planner operations in Japan, Taiwan and Brazil. We also have coinsurance agreements with Prudential Insurance for the U.S. dollar denominated business in our Japanese Life Planner insurance operations.

International Investments

Our International Investments segment offers proprietary and non-proprietary asset management, investment advice and services to retail and institutional clients in selected international markets. These services are marketed through proprietary and third party distribution networks and encompass the businesses of our international investments operations and our global commodities group, which are described in more detail below.

Our international investments operations include manufacturing of proprietary products and distribution of both proprietary and non-proprietary products, tailored to meet client needs. In this business, we invest in asset management and distribution businesses in targeted countries to expand our mass affluent customer base outside the U.S. and to increase our global assets under management. We seek to establish long-term relationships with our clients through our proprietary distribution network and we believe this provides an advantage over some competitors who provide only asset management services. Additionally, this business manages large portions of the general account investment portfolios of our international insurance operations.

Our global commodities group provides advice, sales and trading on a global basis covering a wide variety of commodity, financial and foreign exchange futures, swap and forward contracts, including agricultural commodities, base and precious metals, major currencies, interest rate and stock indices primarily to an institutional client base. We conduct these operations through offices in the U.S., Europe and Asia, and are members of most major futures exchanges. Our global commodities group primarily serves as an intermediary between its customers and, therefore, assumes minimal market risk, except counterparty credit risk related to its customers. We conduct futures transactions on margin according to the regulations of the different futures exchanges. To the extent clients are unable to meet their commitments and margin deposits are insufficient to cover outstanding liabilities, we may be required to purchase or sell financial instruments at prevailing market prices in order to fulfill the client s obligations.

In February 2010, we signed a definitive agreement to sell Prudential Investment & Securities Co., Ltd. and Prudential Asset Management Co., Ltd, which together comprise our Korean asset management operations. The net proceeds from this agreement are expected to be approximately equal to our book value. As a result of the agreement, which is subject to local regulatory approval, results of our Korean asset management operations will, commencing with first quarter of 2010 reporting, be excluded from adjusted operating income for all periods reported.

On July 12, 2007, our international investments operations sold its 50% interest in the operating joint ventures Oppenheim Pramerica Fonds Trust GmbH and Oppenheim Pramerica Asset Management S.a.r.l., which were accounted for under the equity method, to our partner Oppenheim S.C.A. for $121 million. These businesses establish, package and distribute mutual fund products to German and other European retail investors. We recorded a pre-tax gain on the sale of $37 million in 2007.

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

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

Corporate and Other

Corporate and Other includes corporate operations that are not allocated to any of our business segments and the real estate and relocation services business, as well as divested businesses except for those that qualify for discontinued operations accounting treatment under U.S. GAAP.

Corporate Operations

Corporate operations consist primarily of: (1) investment returns on capital that is not deployed in any business segments; (2) returns from investments not allocated to business segments, including debt-financed investment portfolios, as well as tax credit investments and other tax enhanced investments financed by business segments; (3) capital debt that is used or will be used to meet the capital requirements of the Company and the related interest expense; (4) income and expense from qualified pension and other employee benefit plans, after allocations to business segments; (5) corporate-level income and expense, after allocations to business segments, including corporate governance, corporate advertising, philanthropic activities and deferred compensation; (6) certain retained obligations relating to pre-demutualization policyholders whom we had previously agreed to

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provide insurance for reduced or no premium in accordance with contractual settlements related to prior individual life insurance sales practices remediation; (7) businesses that we have placed in wind-down status but have not divested; and (8) the impact of transactions with other segments.

The wind-down businesses included in corporate operations consist of the following:

We have not actively engaged in the life reinsurance market since the early 1990s; however, we remain subject to mortality risk for certain assumed individual life insurance policies under the terms of the reinsurance treaties.

We ceased writing individual disability income policies in 1992, and a year later ceased writing hospital expense and major medical policies. Most of our individual disability income policies are non-cancelable; however, we reinsured all of these policies as of July 1999. For our hospital expense and major medical policies, the 1997 Health Insurance Portability and Accountability Act guarantees renewal. Under certain circumstances, with appropriate approvals from state regulatory authorities, we are permitted to change the premiums charged for these policies if we can demonstrate the premiums have not been sufficient to pay claims and expenses.

Residential Real Estate Brokerage Franchise and Relocation Services

Prudential Real Estate and Relocation Services is our integrated real estate brokerage franchise and relocation services business. The real estate group markets franchises primarily to existing real estate companies. Our franchise agreements grant the franchisee the right to use the Prudential name and real estate service marks in return for royalty payments on gross commissions generated by the franchisees. The franchises generally are independently owned and operated. This business also has a finance subsidiary that makes debt and equity investments in a limited number of franchisees.

Our relocation group offers institutional clients and government agencies a variety of services in connection with the relocation of their employees. These services include: coordination of appraisal; inspection, purchase and sale of relocating employees homes; equity advances to relocating employees; assistance in locating homes at the relocating employee s destination; household goods moving services; client cost-tracking and a variety of relocation policy and group move consulting services. Generally the client is responsible for carrying costs and any loss on sale with respect to a relocating employee s home that is purchased by us. Our government clients and certain corporate clients utilize a fixed price program under which we assume the benefits and burdens of ownership, including carrying costs and any loss on sale.

Divested Businesses

The following operations are businesses that have been or will be sold or exited that did not qualify for discontinued operations accounting treatment under U.S. GAAP. We include the results of these divested businesses in our income from continuing operations, but we exclude these results from our adjusted operating income. See Management s Discussion and Analysis of Financial Condition and Results of Operations Consolidated Results of Operations Segment Measures for an explanation of adjusted operating income.

Financial Advisory

In 2008, we classified our Financial Advisory business as a divested business, reflecting our intention to exit this business. This business consists of our former investment in the Wachovia Securities joint venture described below, which was sold on December 31, 2009, in addition to expenses relating to obligations and costs we retained in connection with the businesses we contributed to the joint venture, primarily for litigation and regulatory matters.

On July 1, 2003, we combined our retail securities brokerage and clearing operations with those of Wachovia Corporation (Wachovia) and formed Wachovia Securities Financial Holdings, LLC, (Wachovia Securities), a joint venture headquartered in St. Louis, Missouri. On December 31, 2008, Wachovia merged with and into Wells Fargo & Company (Wells Fargo), which succeeded to Wachovia s rights and obligations under the joint venture agreements. On December 31, 2009, we completed the sale of our minority joint venture interest in Wachovia Securities, which includes Wells Fargo Advisors, to Wells Fargo. For more information on our former investment in the Wachovia Securities joint venture, including the lookback option, see Note 7 to the Consolidated Financial Statements, as well as Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity and Capital Resources of Subsidiaries Domestic Insurance Subsidiaries Prudential Securities Group.

Commercial Mortgage Securitization Operations

In 2008, we classified our commercial mortgage securitization operations as a divested business, reflecting our decision to exit this business. These operations, which involved the origination and purchase of commercial mortgage loans that we in turn would aggregate and sell into commercial mortgage-backed securitization transactions, together with related hedging activities, were previously reported within the Asset Management segment. We retained and continue the remainder of our commercial mortgage origination, servicing and other commercial mortgage related activities, which remain a part of our Asset Management segment. As of December 31, 2009, our commercial mortgage securitization operations held a loan with a principal balance of $14 million, whose fair value continues to be subject to changes in credit spreads.

Property and Casualty Insurance

In 2003, we sold our property and casualty insurance companies, which included Prudential Property and Casualty Insurance Company (Prupac) that operated nationally in 48 states outside of New Jersey, and the District of Columbia, to Liberty Mutual Group, or Liberty Mutual. We have agreed not to compete with the buyers. A non-compete agreement is effective until the termination of our distribution agreement with Liberty Mutual.

We have reinsured Liberty Mutual for adverse loss development for specific property and casualty risks either written or assumed prior to the sale that Liberty Mutual did not want to retain. We believe that we have adequately reserved for our remaining property and casualty obligations under these reinsurance contracts based on the current information available; however, we may be required to take additional charges in the future that could be material to our results of operations in a particular quarterly or annual period.

In connection with the sale, Liberty Mutual has the right to sell Prupac back to us. This right is not exercisable by Liberty Mutual until October 31, 2010, unless an earlier date is separately agreed. Under the terms of the put right, the business transferring to us would be the business we already reinsure, as described in the preceding paragraph, and any business written prior to a put closing that would be fully reinsured by Liberty Mutual.

Prudential Securities Capital Markets

In 2000, we announced a restructuring of Prudential Securities activities to implement a fundamental shift in our business strategy. We subsequently exited the lead-managed equity underwriting business for corporate issuers and the institutional fixed income business. As of December 31, 2009 we had remaining assets amounting to $77 million related to Prudential Securities institutional fixed income activities.

Exchange shares previously held by Prudential Equity Group

In 2007, we exited the equity sales, trading and research operations of the Prudential Equity Group, and retained certain securities relating to trading exchange memberships of these former operations. These securities were received in 2006 in connection with the commencement of public trading of stock exchange shares, and were fully disposed of in 2008.

Other

We previously marketed individual life insurance in Canada through Prudential of America Life Insurance Company, or PALIC. In 2000, we sold our interest in PALIC and indemnified the purchaser for certain liabilities with respect to claims related to sales practices or market conduct issues arising from operations prior to the sale. We also remain subject to mortality risk for certain assumed individual life insurance policies sold by PALIC under the terms of the reinsurance treaties.

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Discontinued Operations

Discontinued operations reflect the results of the following businesses which qualified for discontinued operations accounting treatment under U.S. GAAP:

- We sold substantially all of the assets and liabilities of our group managed and indemnity healthcare business to Aetna Inc. in 1999.
- We discontinued certain branches of our international securities operations in the fourth quarter of 2002. In the fourth quarter of 2004 we discontinued the remaining branches of our international securities operations.
- We discontinued our Dryden Wealth Management business, which offered financial advisory, private banking and portfolio management services primarily to retail investors in Europe and Asia, in the second quarter of 2005. We subsequently sold these operations in the fourth quarter of 2005.
- We discontinued our Philippine insurance operations in the second quarter of 2006 and subsequently sold these operations in the third quarter of 2006.
- In the third quarter of 2006, we entered into a reinsurance transaction related to the Canadian Intermediate Weekly Premium and Individual Health operations, which resulted in these operations being accounted for as discontinued operations.
- We discontinued the equity sales, trading and research operations of the Prudential Equity Group in the second quarter of 2007.
- We discontinued our Mexican asset management operations in the second quarter of 2009 and subsequently sold these operations in the fourth quarter of 2009.

In addition, direct real estate investments that are sold or held for sale may require discontinued operations accounting treatment under U.S. GAAP.

Closed Block Business

In connection with the demutualization, we ceased offering domestic participating individual life insurance products, under which policyholders are eligible to receive policyholder dividends reflecting experience. The liabilities for our individual in force participating products were segregated, together with assets that will be used exclusively for the payment of benefits and policyholder dividends, expenses and taxes with respect to these products, in the Closed Block. We selected the amount of Closed Block Assets that we expect will generate sufficient cash flow, together with anticipated revenues from the Closed Block Policies, over the life of the Closed Block to fund payments of all expenses, taxes, and policyholder benefits and to provide for the continuation of the policyholder dividend scales in effect in 2000, assuming experience underlying such scales continues. We also segregated for accounting purposes the Surplus and Related Assets that we needed to hold outside the Closed Block to meet capital requirements related to the policies included within the Closed Block at the time of demutualization. No policies sold after demutualization will be added to the Closed Block, and its in force business is expected to decline ultimately as we pay policyholder benefits in full. We also expect the proportion of our business represented by the Closed Block to decline as we grow other businesses. The Closed Block forms the principal component of the Closed Block Business. For additional discussion of the Closed Block Business, see Demutualization and

Separation of the Businesses Separation of the Businesses.

Our strategy for the Closed Block Business is to maintain the Closed Block as required by our Plan of Reorganization over the time period of its gradual diminishment as policyholder benefits are paid in full. We are permitted under the Plan of Reorganization, with the prior consent of the New Jersey Commissioner of Banking and Insurance, to enter into agreements to transfer to a third party all or any part of the risks under the Closed Block policies. In 2005, we completed the process of arranging reinsurance of the Closed Block. The Closed Block is 90% reinsured, including 17% by a wholly owned subsidiary of Prudential Financial. See Note 13 to the Consolidated Financial Statements for additional discussion on the accounting of these modified coinsurance arrangements.

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As discussed in Note 12 to the Consolidated Financial Statements, if the performance of the Closed Block is more or less favorable than we originally assumed in funding, total dividends paid to Closed Block policyholders in the future may be greater 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 as part of policyholder dividends, and it will not be available to shareholders. A policyholder dividend obligation liability is established for these excess cash flows. Each year, the Board of Directors of Prudential Insurance determines the dividends payable on participating policies for the following year based on the experience of the Closed Block, including investment income, net realized and unrealized investment gains, mortality experience and other factors. See Note 22 to the Consolidated Financial Statements for revenues, income and loss, and total assets of the Closed Block Business.

Intangible and Intellectual Property

We use numerous federal, state and foreign servicemarks and trademarks. We believe that the goodwill associated with many of our servicemarks and trademarks, particularly Prudential®, Prudential Financial®, Growing and Protecting Your Wealth® and our Rock logo, are significant competitive assets in the U.S.

On April 20, 2004, we entered into a servicemark and trademark agreement with Prudential plc of the United Kingdom, with whom we have no affiliation, concerning the parties respective rights worldwide to use the names Prudential and Pru. The agreement is intended to avoid customer confusion in areas where both companies compete. Under the agreement, there are restrictions on our use of the Prudential name and mark in a number of countries outside the Americas, including Europe and most parts of Asia. Where these limitations apply, we combine our Rock logo with alternative word marks. We believe that these limitations do not materially affect our ability to operate or expand internationally.

Ratings

For our current ratings information, see Management s Discussion and Analysis of Financial Condition and Results of Operations Ratings.

Competition

In each of our businesses we face intense competition from U.S. and international insurance companies, asset managers and diversified financial institutions. Many of our competitors are large and well-established and some have greater market share or breadth of distribution, offer a broader range of products, services or features, assume a greater level of risk, have lower profitability expectations or have higher claims-paying or credit ratings than we do. We compete in our businesses based on a number of factors including brand recognition, reputation, quality of service, quality of investment advice, investment performance of our products, product features, scope of distribution and distribution arrangements, price, risk management capabilities, capital management capabilities, perceived financial strength, and claims-paying and credit ratings. The relative importance of these factors varies across our products, services and the markets we serve.

The adverse market and economic conditions that began in the second half of 2007 and continued into 2009 have resulted in changes in the competitive landscape. For example, the financial distress experienced by certain financial services industry participants as a result of such conditions, including government mandated sales of certain businesses, may lead to favorable acquisition opportunities, although our ability or that of our competitors to pursue such opportunities may be limited due to lower earnings, reserve increases, and a lack of access to debt capital markets and other sources of financing. Such conditions may also lead to changes by us or our competitors in product offerings, product pricing and business mix that could affect our and their relative sales volumes, market shares and profitability. It is also possible that such conditions may put U.S. companies with financial operations in non-U.S. locations at a competitive disadvantage relative to domestic companies operating in those locations and may impact sales in those locations. Additionally, the competitive landscape may be further affected by the government sponsored programs in the U.S. and similar governmental actions outside of the U.S. in response to the severe dislocations in financial markets.

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Consolidations among companies in the financial services industry may occur and result in competitors with increased market shares, or the introduction of larger or financially stronger competitors through acquisitions or otherwise, in lines of business in which we compete.

We could be subject to claims by competitors that our products, benefits, features or the administration thereof, infringe their patents or trade or service marks, which could adversely affect our sales, profitability and financial position.

Certain of our products compete on the basis of investment performance. A material decline in the investment performance of these products could have an adverse effect on our sales, as well as potentially increase the level of withdrawals and customer complaints. Rankings and ratings of investment performance have a significant effect on our ability to increase our assets under management.

Competition for personnel in our businesses is intense, including our captive sales personnel and our investment managers. In the ordinary course of business, we lose personnel from time to time in whom we have invested significant training. We direct substantial efforts to recruit and retain our insurance agents and employees and to increase their productivity. The loss of key investment managers could have a material adverse effect on our Asset Management segment.

Many of our businesses are in industries where access to multiple sales channels may be a competitive advantage. We currently sell insurance and investment products through both affiliated and non-affiliated distribution channels, including (1) our captive sales channel, (2) independent agents, brokers and financial planners, (3) broker-dealers that generally are members of the New York Stock Exchange, including wirehouse and regional broker-dealer firms, (4) broker-dealers affiliated with banks or that specialize in marketing to customers of banks, and (5) intermediaries such as retirement plan administrators. While we believe that certain insurance and investment products will continue to be sold primarily through face-to-face sales channels, customers desire for objective and not product-related advice may, over time, increase the amount of such insurance and investment products sold through non-affiliated distributors. In addition, we expect that certain insurance and investment products will increasingly be sold through direct marketing, including through electronic commerce.

The proliferation and growth of non-affiliated distribution channels puts pressure on our captive sales channels to remain competitive with respect to product offerings, compensation, services offered, and recruiting and retention. We continue our efforts to strengthen and broaden our sales channels, but we cannot assure that we will be successful. We run the risk that our competitors will have more distribution channels, stronger relationships with non-affiliated distribution channels, or will make a more significant or rapid shift to direct distribution alternatives than we anticipate or are able to achieve ourselves. If this happens, our market share and results of operations could be adversely affected.

Our ability to sell certain insurance products, including traditional guaranteed products depends significantly on our claims-paying ratings. A downgrade in our claims-paying ratings could adversely affect our ability to sell our insurance products and reduce our profitability. For additional information on our claims-paying ratings, see Management s Discussion and Analysis of Financial Condition and Results of Operations Ratings.

Regulation

Overview

Our businesses are subject to comprehensive regulation and supervision. The purpose of these regulations is primarily to protect our customers and not necessarily our shareholders. Many of the laws and regulations to which we are subject are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations. As discussed below, it appears likely that the financial market dislocations that began in the second half of 2007 and continued into 2009 will lead to extensive changes in existing laws and regulations, and regulatory frameworks, applicable to our businesses in the U.S. and internationally. U.S. law and regulation of our international businesses, particularly as it relates to monitoring

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customer activities, is likely to increase as a result of terrorist activity in the U.S. and abroad and may affect our ability to attract and retain customers. The discussion immediately below is primarily focused on applicable U.S. regulation. A separate discussion of the regulations affecting our international businesses is provided later in this section under Regulation of our International Businesses.

Insurance Operations

State insurance laws regulate all aspects of our U.S. insurance businesses, and state insurance departments in the fifty states, the District of Columbia and various U.S. territories and possessions monitor our insurance operations. Prudential Insurance is domiciled in New Jersey and its principal insurance regulatory authority is the New Jersey Department of Banking and Insurance. Our other U.S. insurance companies are principally regulated by the insurance departments of the states in which they are domiciled. Generally, our insurance products must be approved by the insurance regulators in the state in which they are sold. Our insurance products are substantially affected by federal and state tax laws. Products in the U.S. that also constitute securities, such as variable life insurance and variable annuities, are also subject to federal and some state securities laws and regulations. The Securities and Exchange Commission, or the SEC, the Financial Industry Regulatory Authority, or FINRA, and some state securities commissions regulate and supervise these products.

Investment Products and Asset Management Operations

Our investment products and services are subject to federal and state securities, fiduciary, including the Employee Retirement Income Security Act, or ERISA, and other laws and regulations. The SEC, FINRA, the Municipal Securities Rulemaking Board, state securities commissions, state insurance departments and the United States Department of Labor are the principal U.S. regulators that regulate our asset management operations.

Securities Operations

Our securities operations, principally conducted by a number of SEC-registered broker-dealers are subject to federal and state securities, commodities and related laws. The SEC, the Commodity Futures Trading Commission, or the CFTC, state securities authorities, FINRA, the Municipal Securities Rulemaking Board, and similar authorities are the principal regulators of our securities operations.

Regulation Affecting Prudential Financial

Prudential Financial is the holding company for all of our operations. Prudential Financial itself is not licensed as an insurer, investment advisor, broker-dealer, bank or other regulated entity. However, because it owns regulated entities, Prudential Financial is subject to regulation as an insurance holding company and, as discussed under Other Businesses below, a savings and loan holding company. As a company with publicly-traded securities, Prudential Financial is subject to legal and regulatory requirements applicable generally to public companies, including the rules and regulations of the SEC and the NYSE relating to public reporting and disclosure, securities trading, accounting and financial reporting, and corporate governance matters. The Sarbanes-Oxley Act of 2002 and rules and regulations adopted in furtherance of that Act have substantially increased the requirements in these and other areas for public companies such as Prudential Financial.

Insurance Holding Company Regulation

Prudential Financial is subject to the insurance holding company laws in the states where our insurance subsidiaries are domiciled, which currently include New Jersey, Arizona, Connecticut and Indiana or are treated as commercially domiciled, such as New York. These laws generally require each insurance company directly or indirectly owned by the holding company to register with the insurance department in the insurance company s state of domicile and to furnish annually financial and other information about the operations of companies within the holding company system. Generally, all transactions affecting the insurers in the holding company system must be fair and reasonable and, if material, require prior notice and approval or non-disapproval by the state s insurance department.

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Most states, including the states in which our U.S. insurance companies are domiciled, have insurance laws that require regulatory approval of a direct or indirect change of control of an insurer or an insurer s holding company. Laws such as these that apply to us prevent any person from acquiring control of Prudential Financial or of our insurance subsidiaries unless that person has filed a statement with specified information with the insurance regulators and has obtained their prior approval. Under most states statutes, acquiring 10% or more of the voting stock of an insurance company or its parent company is presumptively considered a change of control, although such presumption may be rebutted. Accordingly, any person who acquires 10% or more of the voting securities of Prudential Financial without the prior approval of the insurance regulators of the states in which our U.S. insurance companies are domiciled will be in violation of these states laws and may be subject to injunctive action requiring the disposition or seizure of those securities by the relevant insurance regulator or prohibiting the voting of those securities and to other actions determined by the relevant insurance regulator.

In addition, many state insurance laws require prior notification of state insurance departments of a change in control of a non-domiciliary insurance company doing business in that state. While these prenotification statutes do not authorize the state insurance departments to disapprove the change in control, they authorize regulatory action in the affected state if particular conditions exist such as undue market concentration. Any future transactions that would constitute a change in control of Prudential Financial may require prior notification in those states that have adopted preacquisition notification laws.

These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of Prudential Financial, including through transactions, and in particular unsolicited transactions, that some shareholders of Prudential Financial might consider desirable.

Insurance Operations

State Insurance Regulation

State insurance authorities have broad administrative powers with respect to all aspects of the insurance business including:

- licensing to transact business,
- licensing agents,
- admittance of assets to statutory surplus,
- regulating premium rates for certain insurance products,
- approving policy forms,
- regulating unfair trade and claims practices,

- establishing reserve requirements and solvency standards,
- fixing maximum interest rates on life insurance policy loans and minimum accumulation or surrender values, and
- regulating the type, amounts and valuations of investments permitted and other matters.

State insurance laws and regulations require our U.S. insurance companies to file financial statements with state insurance departments everywhere they do business, and the operations of our U.S. insurance companies and accounts are subject to examination by those departments at any time. Our U.S. insurance companies prepare statutory financial statements in accordance with accounting practices and procedures prescribed or permitted by these departments. The National Association of Insurance Commissioners, or the NAIC, has approved a series of statutory accounting principles that have been adopted, in some cases with minor modifications, by all state insurance departments.

Effective with the annual reporting period ending December 31, 2010, the NAIC adopted revisions to the Annual Financial Reporting Model Regulation, or the Model Audit Rule, related to auditor independence, corporate governance and internal control over financial reporting. The adopted revisions require that we file reports with state insurance departments regarding our assessment of internal control over financial reporting.

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State insurance departments conduct periodic examinations of the books and records, financial reporting, policy filings and market conduct of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC. In May 2007, the Connecticut insurance regulator completed a routine financial examination of American Skandia Life Assurance Corporation (now Prudential Annuities Life Assurance Corporation) for the five year period ended December 31, 2005, and found no material deficiencies. In February 2008, the New Jersey insurance regulator, along with the insurance regulators of Arizona and Connecticut, completed a coordinated financial examination for the five year period ended December 31, 2006 for all of our U.S. life insurance companies as part of the normal five year examination cycle and found no material deficiencies. In December 2008, the Indiana insurance regulator completed a routine financial examination of Vantage Casualty Insurance Company for the five year period ended December 31, 2007 and found no material deficiencies.

Financial Regulation

Dividend Payment Limitations. The New Jersey insurance law and the insurance laws of the other states in which our insurance companies are domiciled regulate the amount of dividends that may be paid by Prudential Insurance and our other U.S. insurance companies. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for additional information.

Risk-Based Capital. In order to enhance the regulation of insurers solvency, the NAIC adopted a model law to implement risk-based capital requirements for life, health and property and casualty insurance companies. All states have adopted the NAIC s model law or a substantially similar law. The risk-based capital, or RBC, calculation, which regulators use to assess the sufficiency of an insurer s statutory capital, measures the risk characteristics of a company s assets, liabilities and certain off-balance sheet items. In general, RBC is calculated by applying factors to various asset, premium, claim, expense and reserve items. Within a given risk category, these factors are higher for those items with greater underlying risk and lower for items with lower underlying risk. Insurers that have less statutory capital than the RBC calculation requires are considered to have inadequate capital and are subject to varying degrees of regulatory action depending upon the level of capital inadequacy. The RBC ratios for each of our U.S. insurance companies currently are above the ranges that would require any regulatory or corrective action.

IRIS Tests. The NAIC has developed a set of financial relationships or tests known as the Insurance Regulatory Information System, or IRIS, to assist state regulators in monitoring the financial condition of U.S. insurance companies and identifying companies that require special attention or action by insurance regulatory authorities. Insurance companies generally submit data annually to the NAIC, which in turn analyzes the data using prescribed financial data ratios, each with defined usual ranges. Generally, regulators will begin to investigate or monitor an insurance company if its ratios fall outside the usual ranges for four or more of the ratios. If an insurance company has insufficient capital, regulators may act to reduce the amount of insurance it can issue. None of our U.S. insurance companies is currently subject to regulatory scrutiny based on these ratios.

Insurance Reserves. State insurance laws require us to analyze the adequacy of our reserves annually. The respective appointed actuaries for each of our life insurance companies must each submit an opinion that our reserves, when considered in light of the assets we hold with respect to those reserves, make adequate provision for our contractual obligations and related expenses.

Market Conduct Regulation

State insurance laws and regulations include numerous provisions governing the marketplace activities of insurers, including provisions governing the form and content of disclosure to consumers, illustrations, advertising, sales practices and complaint handling. State regulatory authorities generally enforce these provisions through periodic market conduct examinations.

Insurance Guaranty Association Assessments

Each state has insurance guaranty association laws under which insurers doing business in the state are members and may be assessed by state insurance guaranty associations for certain obligations of insolvent

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insurance companies to policyholders and claimants. Typically, states assess each member insurer in an amount related to the member insurer s proportionate share of the business written by all member insurers in the state. For the years ended December 31, 2009, 2008, and 2007, we paid approximately $4.5 million, $1.7 million and $1.9 million, respectively, in assessments pursuant to state insurance guaranty association laws. In addition, in 2009, we received $9.3 million of refunds for assessments paid in prior years. While we cannot predict the amount and timing of any future assessments on our U.S. insurance companies under these laws, we have established reserves that we believe are adequate for assessments relating to insurance companies that are currently subject to insolvency proceedings.

State Securities Regulation

Our mutual funds, and in certain states our variable life insurance and variable annuity products, are securities within the meaning of state securities laws. As securities, these products are subject to filing and certain other requirements. Also, sales activities with respect to these products generally are subject to state securities regulation. Such regulation may affect investment advice, sales and related activities for these products**.**

Federal Regulation

Our variable life insurance products, as well as our variable annuity and mutual fund products, generally are securities within the meaning of federal securities laws, registered under the federal securities laws and subject to regulation by the SEC and FINRA. Federal and some state securities regulation similar to that discussed below under Investment Products and Asset Management Operations and Securities Operations affect investment advice, sales and related activities with respect to these products. In addition, although the federal government does not comprehensively regulate the business of insurance, federal legislation and administrative policies in several areas, including financial services regulation, taxation and pension and welfare benefits regulation, can significantly affect the insurance industry. As discussed below, it is likely that the recent financial crisis will lead to changes in existing federal laws and regulatory frameworks affecting the insurance industry. Congress also periodically considers and is considering laws affecting privacy of information and genetic testing that could significantly and adversely affect the insurance industry.

In view of recent events involving certain financial institutions, it is possible that the U.S. federal government will heighten its oversight of companies in the financial services industry such as us, including possibly through a federal system of insurance regulation.

Tax Legislation

Current U.S. federal income tax laws generally permit certain holders to defer taxation on the build-up of value of annuities and life insurance products until payments are actually made to the policyholder or other beneficiary and to exclude from taxation the death benefit paid under a life insurance contract. Congress from time to time considers legislation that could make our products less attractive to consumers, including legislation that would reduce or eliminate the benefit of this deferral on some annuities and insurance products, as well as other types of changes that could reduce or eliminate the attractiveness of annuities and life insurance products to consumers. For example, under current law, the estate tax is completely eliminated for the year 2010. Thereafter, the tax is reinstated using the exclusion limit and rates in effect in 2001. It is unclear if Congress will keep current law in place or take action to reinstate the estate tax, possibly retroactively to the beginning of 2010. This uncertainty makes estate planning difficult and may impact the sale of our products.

Legislative or regulatory changes could also impact the amount of taxes that we pay, thereby affecting our consolidated net income. For example, the U.S. Treasury Department and the Internal Revenue Service intend to address through regulations the methodology to be followed in determining the dividends received deduction, or DRD, related to variable life insurance and annuity contracts. The DRD reduces the amount of dividend income subject to U.S. tax and is a significant component of the difference between our actual tax expense and expected amount determined using the federal statutory tax rate of 35%. On February 1, 2010, 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

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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 our consolidated net income.

For additional discussion of possible tax legislative and regulatory risks that could affect our business, see Risk Factors.

The products we sell have different tax characteristics, in some cases generating tax deductions. The level of profitability of certain of our products are significantly dependent on these characteristics and our ability to continue to generate taxable income, which are taken into consideration when pricing products and are a component of our capital management strategies. Accordingly, a change in tax law, our ability to generate taxable income, or other factors impacting the availability or value of the tax characteristics generated by our products, could impact product pricing and returns.

ERISA

ERISA is a comprehensive federal statute that applies to U.S. employee benefit plans sponsored by private employers and labor unions. Plans subject to ERISA include pension and profit sharing plans and welfare plans, including health, life and disability plans. ERISA provisions include reporting and disclosure rules, standards of conduct that apply to plan fiduciaries and prohibitions on transactions known as prohibited transactions, such as conflict-of-interest transactions and certain transactions between a benefit plan and a party in interest. ERISA also provides for a scheme of civil and criminal penalties and enforcement. Our insurance, asset management and retirement businesses provide services to employee benefit plans subject to ERISA, including services where we may act as an ERISA fiduciary. In addition to ERISA regulation of businesses providing products and services to ERISA plans, we become subject to ERISA s prohibited transaction rules for transactions with those plans, which may affect our ability to enter transactions, or the terms on which transactions may be entered, with those plans, even in businesses unrelated to those giving rise to party in interest status.

USA Patriot Act

The USA Patriot Act of 2001, enacted in response to the terrorist attacks on September 11, 2001, contains anti-money laundering and financial transparency laws and mandates the implementation of various new regulations applicable to broker-dealers and other financial services companies, including insurance companies. The Patriot Act seeks to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering. Anti-money laundering laws outside of the U.S. contain provisions that may be different, conflicting or more rigorous. The increased obligations of financial institutions to identify their customers, watch for and report suspicious transactions, respond to requests for information by regulatory authorities and law enforcement agencies, and share information with other financial institutions require the implementation and maintenance of internal practices, procedures and controls.

Investment Products and Asset Management Operations

Some of the separate account, mutual fund and other pooled investment products offered by our businesses, in addition to being registered under the Securities Act, are registered as investment companies under the Investment Company Act of 1940, as amended, and the shares of certain of these entities are qualified for sale in some states and the District of Columbia. Separate account investment products are also subject to state insurance regulation as described above. We also have several subsidiaries that are registered as broker-dealers under the Securities Exchange

Act of 1934, as amended, or the Exchange Act, and are subject to federal and state regulation, including but not limited to the SEC s Uniform Net Capital Rule, described under Securities Operations below. In addition, we have several subsidiaries that are investment advisors registered under the Investment Advisers Act of 1940, as amended. Our Prudential Agents and other employees, insofar as they sell products that are securities, are subject to the Exchange Act and to examination requirements and regulation by the SEC, FINRA and state securities commissioners. Regulation and examination requirements also extend to various Prudential entities that employ or control those individuals. The federal securities laws could also require reapproval by customers of our investment advisory contracts to manage mutual funds, including mutual funds included in annuity products, upon a change in control.

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Federal and state regulators are devoting substantial attention to the mutual fund and variable annuity businesses. As a result of publicity relating to widespread perceptions of industry abuses, numerous legislative and regulatory reforms have been proposed or adopted with respect to mutual fund governance, disclosure requirements concerning mutual fund share classes, commission breakpoints, revenue sharing, advisory fees, market timing, late trading, portfolio pricing, annuity products, hedge funds, disclosures to retirement plan participants, custodial arrangements and other issues. It is difficult to predict at this time whether changes resulting from new laws and regulations will affect our investment product offerings or asset management operations and, if so, to what degree.

Congress from time to time considers pension reform legislation that could decrease or increase the attractiveness of certain of our retirement products and services to retirement plan sponsors and administrators, or have an unfavorable or favorable effect on our ability to earn revenues from these products and services. In this regard, the Pension Protection Act of 2006 (PPA) made significant changes in employer pension funding obligations associated with defined benefit pension plans which are likely to increase sponsors costs of maintaining these plans. Over time, these changes could hinder our sales of defined benefit pension products and services and cause sponsors to discontinue existing plans for which we provide asset management, administrative, or other services, but could increase the attractiveness of certain products we offer in connection with terminating pension plans. Among other changes introduced by PPA were facilitation of automatic enrollment and escalation provisions for defined contribution plans. To the extent that these provisions result in adoption of defined contribution plan changes by plan sponsors, they may enhance growth of participant account values.

Since the PPA was enacted, regulations implementing a number of key provisions have been issued in proposed or final form. The final default investment regulations were issued in October 2007, pursuant to which plan sponsors select approved default investment options for defined contribution plan participants who are automatically enrolled but do not make affirmative investment elections. While our full service stable value products are not among the qualified default investment options, we offer a wide variety of retirement products that are approved under this regulation. These rules do not require previously invested funds to be transferred. In addition, participants may continue to affirmatively select our stable value products. As these and other regulations implementing the PPA are likely to interact with one another as plan sponsors evaluate them, we cannot predict what impact, if any, these regulations may have on our business, results of operations or financial condition.

For a discussion of potential federal tax legislation and other federal regulation affecting our variable annuity products, see Insurance Operations Federal Regulation above.

Securities Operations

A number of our subsidiaries are registered as broker-dealers with the SEC and with some or all of the 50 states and the District of Columbia. In addition, a number of our subsidiaries are also registered as investment advisors with the SEC. Our broker-dealer affiliates are members of, and are subject to regulation by, self-regulatory organizations, including FINRA. Self-regulatory organizations such as FINRA conduct examinations of, and have adopted rules governing, their member broker-dealers. In addition, state securities and certain other regulators have regulatory and oversight authority over our registered broker-dealers.

Broker-dealers and their sales forces in the U.S. and in certain other jurisdictions are subject to regulations that cover many aspects of the securities business, including sales methods and trading practices. The regulations cover the suitability of investments for individual customers, use and safekeeping of customers funds and securities, capital adequacy, recordkeeping, financial reporting and the conduct of directors, officers and employees.

The commodity futures and commodity options industry in the U.S. is subject to regulation under the Commodity Exchange Act, as amended. The CFTC is the federal agency charged with the administration of the Commodity Exchange Act and the regulations adopted under that Act. A number of our subsidiaries are registered with the CFTC as futures commission merchants, commodity pool operators or commodity trading advisors. Our futures business in our global commodities group is also regulated in the U.S. by the National Futures Association and in the United Kingdom by the Financial Services Authority, or the FSA.

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The SEC and other governmental agencies and self-regulatory organizations, as well as state securities commissions in the U.S., have the power to conduct administrative proceedings that can result in censure, fine, the issuance of cease-and-desist orders or suspension, termination or limitation of the activities of a broker-dealer or an investment advisor or its employees.

As registered broker-dealers and members of various self-regulatory organizations, our U.S. registered broker-dealer subsidiaries are subject to the SEC s Uniform Net Capital Rule. The Uniform Net Capital Rule sets the minimum level of net capital a broker-dealer must maintain and also requires that at least a minimum part of a broker-dealer s assets be kept in relatively liquid form. These net capital requirements are designed to measure the financial soundness and liquidity of broker-dealers. Our broker-dealers are also subject to the net capital requirements of the CFTC and the various securities and commodities exchanges of which they are members. Compliance with the net capital requirements could limit those operations that require the intensive use of capital, such as underwriting and trading activities, and may limit the ability of these subsidiaries to pay dividends to Prudential Financial.

Privacy Regulation

Federal and state law and regulation require financial institutions and other businesses to protect the security and confidentiality of personal information, including health-related and customer information, and to notify customers and other individuals about their policies and practices relating to their collection and disclosure of health-related and customer information and their practices relating to protecting the security and confidentiality of that information. State laws regulate use and disclosure of social security numbers, Federal and state laws require notice to affected individuals, law enforcement, regulators and others if there is a breach of the security of certain personal information, including social security numbers, and require holders of certain personal information to protect the security of the data. Federal regulations require financial institutions and creditors to implement effective programs to detect, prevent, and mitigate identity theft. Federal and state laws and regulations regulate the ability of financial institutions to make telemarketing calls and to send unsolicited e-mail or fax messages to consumers and customers. Federal law and regulation regulate the permissible uses of certain personal information, including consumer report information. Federal and state governments and regulatory bodies may be expected to consider additional or more detailed regulation regarding these subjects and the privacy and security of personal information.

Environmental Considerations

Federal, state and local environmental laws and regulations apply to our ownership and operation of real property. Inherent in owning and operating real property are the risk of hidden environmental liabilities and the costs of any required clean-up. Under the laws of certain states, contamination of a property may give rise to a lien on the property to secure recovery of the costs of clean-up, which could adversely affect our commercial mortgage lending business. In several states, this lien has priority over the lien of an existing mortgage against such property. In addition, in some states and under the federal Comprehensive Environmental Response, Compensation, and Liability Act of 1980, or CERCLA, we may be liable, in certain circumstances, as an owner or operator, for costs of cleaning-up releases or threatened releases of hazardous substances at a property mortgaged to us. We also risk environmental liability when we foreclose on a property mortgaged to us, although Federal legislation provides for a safe harbor from CERCLA liability for secured lenders that foreclose and sell the mortgaged real estate, provided that certain requirements are met. However, there are circumstances in which actions taken could still expose us to CERCLA liability. Application of various other federal and state environmental laws could also result in the imposition of liability on us for costs associated with environmental hazards.

We routinely conduct environmental assessments prior to taking title to real estate, whether through acquisition for investment, or through foreclosure on real estate collateralizing mortgages that we hold. Although unexpected environmental liabilities can always arise, we seek to minimize this risk by undertaking these environmental assessments and complying with our internal procedures, and as a result, we believe that any costs associated with compliance with environmental laws and regulations or any clean-up of properties would not have a material adverse effect on our results of operations.

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Other

Our U.S. banking operations are subject to federal and state regulation. As a result of its ownership of Prudential Bank & Trust, FSB, Prudential Financial and Prudential IBH Holdco, Inc. are considered to be savings and loan holding companies and are subject to annual examination by the Office of Thrift Supervision of the U.S. Department of Treasury. Federal and state banking laws generally provide that no person may acquire control of Prudential Financial, and gain indirect control of either Prudential Bank & Trust, FSB or Prudential Trust Company, which is discussed below, without prior regulatory approval. Generally, beneficial ownership of 10% or more of the voting securities of Prudential Financial would be presumed to constitute control. We provide trust services through Prudential Trust Company, a state-chartered trust company incorporated under the laws of the Commonwealth of Pennsylvania, and offer both trust directed services and investment products through Prudential Bank & Trust, FSB.

The sale of real estate franchises by our real estate brokerage franchise operation is regulated by various state laws and the Federal Trade Commission. The federal Real Estate Settlement Procedures Act and state real estate brokerage and unfair trade practice laws regulate payments among participants in the sale or financing of residences or the provision of settlement services such as mortgages, homeowner s insurance and title insurance.

We are subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting and escheatment of unclaimed or abandoned funds, and we are subject to audit and examination for compliance with these requirements.

Regulation of our International Businesses

Our international businesses are subject to comprehensive regulation and supervision. As in the U.S., the purpose of these regulations is primarily to protect our customers and not necessarily our shareholders. Many of the laws and regulations to which our international businesses are subject are regularly re-examined, in some instances resulting in comprehensive restatements of applicable laws, regulations and reorganization of supervising authorities. Existing or future laws or regulations may become more restrictive or otherwise adversely affect our operations. It is also becoming increasingly common for regulatory developments originating in the U.S., such as those discussed above, to be studied and adopted in some form in other jurisdictions in which we do business. For example, the insurance regulatory authorities in other jurisdictions, including Japan and Korea, have introduced Sarbanes-Oxley type financial control requirements as well. In addition, as discussed below, it is likely that the financial markets dislocation will lead to changes in existing laws and regulations, and regulatory frameworks, affecting our international business. Changes such as these can increase compliance costs and potential regulatory exposure. In some instances, such jurisdictions may also impose different, conflicting or more rigorous laws and requirements, including regulations governing privacy, consumer protection, employee protection, corporate governance and capital adequacy.

In addition, our international operations face political, legal, operational and other risks that we do not face in the U.S., including the risk of discriminatory regulation, labor issues in connection with workers associations and trade unions, nationalization or expropriation of assets, dividend limitations, price controls and currency exchange controls or other restrictions that prevent us from transferring funds from these operations out of the countries in which they operate or converting local currencies we hold into U.S. dollars or other currencies.

Our international insurance operations are principally supervised by regulatory authorities in the jurisdictions in which they operate, including the Japanese Ministry of Finance and Financial Services Agency. We operate insurance companies in Japan, Korea, Taiwan, Mexico, Argentina, Brazil, Italy and Poland and have insurance operations in India through a joint venture in which we have a minority interest. The insurance regulatory bodies for these businesses typically oversee such issues as company licensing, the licensing of insurance sales staff, insurance product approvals, sales practices, claims payment practices, permissible investments, solvency and capital adequacy, and insurance reserves, among other items. In some jurisdictions for certain products regulators will also mandate premium rates (or components of pricing) or minimum guaranteed interest rates. Periodic examinations of insurance company books and records, financial reporting requirements, market conduct examinations and policy filing requirements are among the techniques used by these regulators to supervise our non-U.S. insurance businesses.

In order to monitor insurers solvency, regulatory authorities in the jurisdictions in which we operate outside the U.S. generally establish some form of minimum solvency margin requirements for insurance companies, similar in concept to the RBC ratios that are employed by U.S. insurance regulators. These solvency margins are used by regulators to assess the sufficiency of an insurer s capital and claims-paying ability and include the impact of transactions with affiliated entities. The solvency margin ratios in certain jurisdictions are required to be disclosed to the public. Insurers that have less solvency margin than the regulators require are considered to have inadequate capital and are subject to varying degrees of regulatory action depending upon the level of capital inadequacy. The solvency margin ratios for each of our international insurance operations currently are above the ranges that would require any regulatory or corrective action.

The Financial Services Agency, which is the insurance regulator in Japan, recently released revisions to the solvency margin requirements that will change the manner in which an insurance company s core capital will be calculated. Under the proposals, certain financial assets will now be excluded from the core capital calculation and certain investment risk factors, including derivatives and foreign exchange, will be revised. These changes will be effective for the fiscal year ending March 31, 2012; however, it is anticipated that companies may begin to publicly disclose both their old and new solvency margin calculations in the third quarter of 2010. While we believe that the solvency margins of our Japanese insurance subsidiaries would continue to satisfy regulatory requirements, it is possible that a reduction in the reported ratios arising from changes in the calculation requirements could affect our claims paying ratings or customer perception of our financial strength.

The insurance regulatory bodies in some of the countries where our international insurance businesses are located regulate the amount of dividends that they can pay to shareholders. The Prudential Life Insurance Company, Ltd., or Prudential of Japan, began paying dividends in 2006. Pursuant to Gibraltar Life s reorganization, in addition to regulatory restrictions, there are certain restrictions on Gibraltar Life s ability to pay dividends and we anticipate that it will be several years before these restrictions will allow Gibraltar Life to pay dividends. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for additional information.

Our international investment operations are also supervised primarily by regulatory authorities in the countries in which they operate, including the Korean Ministry of Finance and Economy and the Financial Supervisory Commission, and the United Kingdom s Financial Services Authority. We operate investment related businesses in, among other jurisdictions, Japan, Korea, Taiwan, Mexico, the United Kingdom, Hong Kong, Germany and Singapore, and participate in investment related joint ventures in Brazil, Italy, Mexico and China. These businesses may provide investment-related products such as investment management products and services, mutual funds, brokerage, separately managed accounts, as well as commodities and derivatives products. The regulatory authorities for these businesses typically oversee such issues as company licensing, the licensing of investment product sales staff, sales practices, solvency and capital adequacy, mutual fund product approvals and related disclosures, securities, commodities and related laws, among other items.

In some cases, our international investment businesses are also subject to U.S. securities laws and regulations. One is regulated as a broker-dealer in the U.S. under the Securities Exchange Act of 1934, as amended and others are registered investment advisers under the Investment Advisers Act of 1940, as amended. Our international insurance and investment businesses may also be subject to other U.S. laws governing businesses controlled by U.S. companies such as the Foreign Corrupt Practices Act and certain regulations issued by the U.S. Office of Foreign Asset Controls. In addition, under current U.S. law and regulations we may be prohibited from dealing with certain individuals or entities in certain circumstances and we may be required to monitor customer activities, which may affect our ability to attract and retain customers.

In addition to the foregoing, non-U.S. regulatory and legislative bodies may enact or adopt laws and regulations that can affect Prudential Financial as the ultimate holding company of our international businesses. For example, a number of jurisdictions and groups of regulators are actively exploring the adoption of group-wide capital adequacy and solvency standards, as well as other regulatory requirements which, if adopted, will subject Prudential entities, including Prudential Financial, Inc., to regulatory requirements and oversight that do not exist today. These requirements could impact the manner in which we deploy our capital, structure and

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manage our businesses, and otherwise operate both within and outside the U.S. The possibility of inconsistent and conflicting regulation of the Prudential group of companies also exists as law makers and regulators in multiple jurisdictions simultaneously pursue these initiatives.

Certain of our international insurance operations, including those in Japan, may be subject to assessments, generally based on their proportionate share of business written in the relevant jurisdiction, for certain obligations of insolvent insurance companies to policyholders and claimants. As we cannot predict the timing of future assessments, they may materially affect the results of operations of our international insurance operations in particular quarterly or annual periods. In addition, in some jurisdictions, some of our insurance products are considered securities under local law. In those instances, we may also be subject to local securities regulations and oversight by local securities regulators.

Under the Japanese insurance guaranty law, substantially similar to such laws in the U.S., all licensed life insurers in Japan are required to be members and are assessed, on a pre-funded basis, by the Japan Policyholders Protection Corporation, or PPC. These assessments generate a collective fund which is used to satisfy certain obligations of insolvent insurance companies to policyholders and claimants. The PPC assesses each member in an amount related to its proportionate share of new business written by all member insurers. For the years ended December 31, 2009, 2008, and 2007, we paid approximately $15 million, $15 million and $22 million, respectively, in assessments pursuant to Japanese insurance guaranty association laws. While we cannot predict the amount and timing of any future assessments on our insurance companies doing business in Japan, we have established reserves that we believe are adequate for assessments relating to insolvent Japanese insurance companies.

Our international businesses are subject to the tax laws and regulations of the countries in which they are organized and in which they operate. Foreign governments from time to time consider legislation that could impact the amount of taxes that we pay or impact the sales of our products. During 2007, Mexico enacted an alternative flat tax that became effective in 2008, while China, Germany, Italy and the United Kingdom reduced corporate tax rates for 2008. In March 2007, the Japanese National Tax Authority, or NTA, indicated that it would change the tax treatment of certain term life products sold to corporations, which resulted in a significant decrease in the sale of Increasing Term Life insurance to corporations in Japan. On December 26, 2007, the NTA confirmed in an official announcement its intention to revise the corporate tax deductibility of insurance premiums paid with respect to certain Increasing Term insurance products. The NTA then released a revised tax circular that reduced, but did not eliminate, the corporate tax deductibility of insurance premiums paid with respect to Increasing Term insurance products sold after February 28, 2008. In 2008, Korea enacted a corporate income tax rate reduction from 27.5% to 24.2% for fiscal years beginning on or after January 1, 2009 and to 22% for fiscal years beginning on or after January 1, 2011. In 2009, Taiwan enacted a corporate income tax rate decrease from 25% to 20% effective January 1, 2010. Also in 2009, Mexico enacted a corporate income tax rate increase that will begin to take effect in 2010.

Our international operations are regulated in the jurisdictions in which they are located or operate. These regulations may apply heightened scrutiny to non-domestic companies, which can reduce our flexibility as to intercompany transactions, investments and other aspects of business operations and adversely affect our liquidity and profitability.

Potential Changes in Regulation as a Result of Recent Financial Crisis and Financial Market Dislocations

Governmental actions in response to the recent financial crisis and financial market dislocations could subject us to substantial additional regulations in the United States and internationally.

During 2009, the Obama Administration and Congress announced proposals to reform the national regulation of financial services and financial institutions. Depending on the manner of adoption of these or other proposals, we could become subject to increased federal regulation. On

December 11, 2009, the House of Representatives approved H.R. 4173, the Wall Street Reform and Consumer Protection Act of 2009. H.R. 4173, if enacted, could affect the Company in a number of ways. In particular, Prudential Financial would become subject to regulation as a thrift holding company by the Board of Governors of the Federal Reserve System (the FRB), which could exercise its authority in a manner different from current regulation by the Office of Thrift Supervision, including the imposition of capital or other prudential requirements on Prudential

Financial. In addition, Prudential Financial, or one of its subsidiaries, could be designated as a financial company subject to stricter prudential standards imposed by a newly established financial services oversight council, composed principally of federal regulators and with the FRB acting as its agent, if this council were to determine that material financial distress at the Company or the scope of the Company s activities could pose a threat to financial stability or the economy. If so designated, we would become subject to unspecified stricter prudential standards, including stricter requirements and limitations relating to capital, leverage, liquidity, debt to income ratios, and counterparty exposure, as well as overall risk management requirements and a requirement to maintain a plan for rapid and orderly dissolution in the event of severe financial distress. Moreover, if so designated, failure by the Company to satisfy the capitalization requirements imposed could or would result, depending on the degree of under-capitalization, in additional restrictions on or requirements with respect to our business activities, such as restrictions on dividends or stock repurchases, asset growth or transactions with affiliates or requirements to develop and/or implement a capital restoration plan, obtain prior approval for acquisitions or new business lines, divest business lines, replace directors or officers or implement restrictions on senior management compensation.

In addition to heightened regulation of certain financial institutions, H.R. 4173, if enacted, would authorize the FRB to recommend the imposition of stricter prudential standards to activities and practices identified as posing heightened systemic risk. It is possible that any standards so imposed could have significant effects on the Company s business.

We cannot predict whether Prudential Financial, any of its subsidiaries, or any of the Company s activities might be designated for stricter standards, if the bill s provisions became law. Nor can we predict what standards might be imposed, or what impact such standards would have on our business, financial condition or results of operations.

If enacted, H.R. 4173 would also establish a Federal Insurance Office within the Department of the Treasury to be headed by a director appointed by the Secretary of the Treasury. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office would perform various functions with respect to insurance (other than health insurance), including serving as a non-voting member of the financial services oversight council referred to above and participating in that council s decisions regarding insurers (potentially including the Company) to be designated for stricter regulation. The director would also be required to conduct a study on how to modernize and improve the system of insurance regulation in the United States, including by increased national uniformity through either a federal charter or effective action by the states.

If enacted, H.R. 4173, would also subject the Company to a risk-based assessment imposed by the Federal Deposit Insurance Company (FDIC) to create a Systemic Resolution Fund to pay for the special dissolution of financial companies for which a determination has been made that such resolution is necessary to prevent harm to the financial stability of the United States. It is not possible to quantify what that assessment might be, although it could be significant. Prudential Financial is among the class of companies that theoretically could be subject to the special dissolution regime, which would authorize the FDIC to act as Prudential Financial s receiver in a proceeding defined by H.R. 4173 in lieu of a proceeding under the Federal bankruptcy code.

In addition, if enacted, H.R. 4173 would create a new framework for regulation of over-the-counter (OTC) derivatives markets that could impact Prudential Global Funding s (PGF) activities. If the CFTC did not exercise its discretion to exclude PGF from the class of regulated derivatives dealers or other regulated market participants because of the limited nature of its activities, PGF would be compelled to meet capital, margin, clearing and execution rules otherwise imposed by the bill, which could significantly impact the cost of its operations.

Another section of H.R. 4173, the Investor Protection Act, if enacted, would, among other things, require the SEC to impose on registered broker-dealers that provide retail investors personalized investment advice about securities a new standard of conduct the same as the overall standard for investment advisers (i.e. a fiduciary standard). The Investor Protection Act would also require broker-dealers selling proprietary or a limited range of products to make certain disclosures and obtain customer consents or acknowledgements. We cannot predict the precise nature of the regulations the SEC would implement were H.R. 4173 enacted, but they could impact the manner in which certain of our businesses operate.

The Senate has not approved comparable legislation, although proposals include provisions addressing special resolution authority for failing financial institutions, systemic risk regulation, and increased derivatives oversight, which could impact Prudential. We cannot predict the form in which proposals will finally be adopted (if at all) or their applicability to or effect on our business, financial condition or results of operation.

On February 1, 2010, the Obama Administration released the General Explanations of the Administration s Revenue Proposals, which includes proposed legislation that would impose a Financial Crisis Responsibility Fee (FCRF) on certain financial institutions with over $50 billion in consolidated assets as of January 14, 2010. As proposed, the FCRF would apply to insurance companies or other companies that own insured depositories, which would include the Company. The FCRF would be imposed at a rate of approximately 15 basis points on the worldwide consolidated liabilities of companies subject to the FCRF, which includes a broad set of liabilities with a few exceptions, including certain policy-related liabilities of insurance companies. The FCRF would be imposed effective as of July 1, 2010. The amount of the FCRF that would be imposed upon the Company under this proposal, in the event it is enacted into law, is unclear, but could be substantial.

Additionally, in January 2010, the Administration announced its intention to propose legislation that would prohibit a bank or financial institution that contains a bank from owning, investing in or sponsoring a hedge fund or private equity fund, or engaging in proprietary trading operations unrelated to serving customers for its own profit. Depending on how it is drafted, this proposal, if enacted, could apply to the Company. The impact, if any, that such an adopted proposal would have on the business, financial condition or results of operation of the Company is unclear. We cannot predict the form in which these proposals will finally be adopted (if at all) or their applicability to or effect on our business, financial condition or results of operation.

In addition to these proposals and initiatives in the United States, regulators and law makers around the world are actively reviewing the causes of the financial crisis and exploring steps to avoid similar problems in the future. In many respects, this work is being led by the Financial Stability Board (FSB), consisting of representatives of national financial authorities of the G20 nations. The G20 and the FSB have issued a series of papers and recommendations intended to produce significant changes in how financial companies, particularly companies that are members of large and complex financial groups, should be regulated. These proposals address such issues as financial group supervision, capital and solvency standards, systemic economic risk, corporate governance including executive compensation, and a host of related issues associated with responses to the financial crisis. The law makers and regulatory authorities in a number of jurisdictions in which we do business have already begun introducing legislative and regulatory changes consistent with G20 and FSB recommendations, including proposals governing consolidated regulation of insurance holding companies by the Financial Services Agency in Japan, proposals governing executive compensation by the financial regulators in Germany (BaFIN) and the United Kingdom (FSA), and proposals to permit U.S.-style class action litigation in the United Kingdom with respect to financial services claims.

Employees

As of December 31, 2009, we had 41,943 employees, including 21,849 located outside of the U.S. We believe our relations with our employees are satisfactory.

Available Information

Prudential Financial files periodic and current reports, proxy statements and other information with the SEC. Such reports, proxy statements and other information may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, N.E., Washington D.C. 20549 or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet website (www.sec.gov) that contains reports, proxy statements, and other information regarding issuers that file electronically with the SEC, including Prudential Financial.

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You may also access our press releases, financial information and reports filed with the SEC (for example, our Annual Report on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and any amendments to those Forms) online at www.investor.prudential.com. Copies of any documents on our website are available without charge, and reports filed with or furnished to the SEC will be available as soon as reasonably practicable after they are filed with or furnished to the SEC. The information found on our website is not part of this or any other report filed with or furnished to the SEC.

ITEM 1A. RISK FACTORS

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

Some of our businesses and our results of operations were materially adversely affected by adverse conditions in the global financial markets and adverse economic conditions generally that began in the second half of 2007 and continued into 2009. Our businesses, results of operations and financial condition may be adversely affected, possibly materially, if these conditions recur or current market or economic conditions deteriorate.

Our results of operations were materially adversely affected by adverse conditions in the global financial markets and the economy generally, both in the U.S. and elsewhere around the world that began in the second half of 2007 and continued into 2009. The global financial markets experienced extreme stress. Volatility and disruption in the global financial markets reached unprecedented levels for the post World War II period. The availability and cost of credit were materially affected. These factors, combined with economic conditions in the U.S., including depressed home and commercial real estate prices and increasing foreclosures, falling equity market values, declining business and consumer confidence and rising unemployment, precipitated a severe economic recession and fears of even more severe and prolonged adverse economic conditions.

Due to the economic environment, the global fixed-income markets experienced both extreme volatility and limited market liquidity conditions, which affected a broad range of asset classes and sectors. As a result, the market for fixed income instruments experienced decreased liquidity, increased price volatility, credit downgrade events, and increased probability of default. Global equity markets also experienced heightened volatility. These events had and, to the extent they persist or recur, may have an adverse effect on us. Our revenues are likely to decline in such circumstances, the cost of meeting our obligations to our customers may increase, and our profit margins would likely erode. In addition, in the event of a prolonged or severe economic downturn, we could incur significant losses in our investment portfolio.

The demand for our products could be adversely affected in an economic downturn characterized by higher unemployment, lower family income, lower consumer spending, lower corporate earnings and lower business investment. We also may experience a higher incidence of claims and lapses or surrenders of policies. Our policyholders may choose to defer or stop paying insurance premiums. We cannot predict definitively whether or when such actions, which could impact our business, results of operations, cash flows and financial condition, may occur.

Beginning in the second half of 2007 and continuing into 2009, markets in the United States and elsewhere experienced extreme and unprecedented volatility and disruption, with adverse consequences to our liquidity, access to capital and cost of capital. A recurrence of market conditions such as those we recently experienced may significantly affect our ability to meet liquidity needs, our access to capital

and our cost of capital, including capital that may be required by our subsidiaries. Under such conditions, we may seek additional debt or equity capital but be unable to obtain such.

Adverse capital market conditions have affected and may affect in the future the availability and cost of borrowed funds and could impact our ability to refinance existing borrowings, thereby ultimately impacting our profitability and ability to support or grow our businesses. We need liquidity to pay our operating expenses, interest on our debt and dividends on our capital stock and replace certain maturing debt obligations. Without sufficient liquidity, we could be forced to curtail certain of our operations, and our business could suffer. The principal sources of our liquidity are insurance premiums, annuity considerations, deposit funds and cash flow from our investment portfolio and assets, consisting mainly of cash or assets that are readily convertible into cash. Sources of liquidity in normal markets also include a variety of short- and long-term instruments, including securities lending and repurchase agreements, commercial paper, medium and long-term debt and capital securities.

Disruptions, uncertainty and volatility in the financial markets limited and, to the extent they persist or recur, may limit in the future our access to capital required to operate our business, most significantly our insurance and annuities operations. These market conditions may in the future limit our ability to replace, in a timely manner, maturing debt obligations and access the capital necessary to grow our business, replace capital withdrawn by customers or raise new capital required by our subsidiaries as a result of volatility in the markets. As a result, under such conditions we may be forced to delay raising capital, issue shorter tenor securities than would be optimal, bear an unattractive cost of capital or be unable to raise capital at any price, which could decrease our profitability and significantly reduce our financial flexibility. Actions we might take to access financing may in turn cause rating agencies to reevaluate our ratings. Our ability to borrow under our commercial paper programs is also dependent upon market conditions. Future deterioration of our capital position at a time when we are unable to access the long-term debt or commercial paper markets could have a material adverse effect on our liquidity. Our internal sources of liquidity may prove to be insufficient.

We may seek additional debt or equity financing to satisfy our needs. The availability of additional financing will depend on a variety of factors such as market conditions, the general availability of credit, the overall availability of credit to the financial services industry, and our credit ratings and credit capacity. We may not be able to successfully obtain additional financing on favorable terms, or at all. Further, any future equity offerings would dilute the ownership interest of existing shareholders.

The Risk Based Capital, or RBC, ratio is a primary measure by which we evaluate the capital adequacy of Prudential Insurance, which includes businesses in both the Financial Services Businesses and the Closed Block Business. We have managed Prudential Insurance s RBC ratio to a level consistent with a AA ratings objective; however, rating agencies take into account a variety of factors in assigning ratings to our insurance subsidiaries in addition to RBC levels. RBC is determined by statutory rules that consider risks related to the type and quality of the invested assets, insurance-related risks associated with Prudential Insurance s products, interest rate risks and general business risks. The RBC ratio calculations are intended to assist insurance regulators in measuring the adequacy of Prudential Insurance s statutory capitalization. In addition, RBC ratios may also impact our credit and claims paying ratings. We estimate that as of December 31, 2009 the RBC for Prudential Insurance and our other domestic life insurance subsidiaries would exceed the minimum level required by applicable insurance regulations.

Disruptions in the capital markets could adversely affect Prudential Financial s and its subsidiaries ability to access sources of liquidity, as well as threaten to reduce our capital below a level that is consistent with our existing ratings objectives. Therefore, we may need to take actions, which may include but are not limited to: (1) further access external sources of capital, including the debt or equity markets, as noted above; (2) reduce or eliminate future shareholder dividends on our Common Stock; (3) utilize further proceeds from our outstanding retail medium term notes for general corporate purposes by accelerating repayments of additional funding agreements from Prudential Insurance; (4) undertake additional capital management activities, including reinsurance transactions; (5) transfer ownership of certain subsidiaries of Prudential Financial to Prudential Insurance; (6) take additional actions related to derivatives; (7) limit or curtail sales of certain products and/or restructure existing products; (8) undertake further asset sales or internal asset transfers; and (9) seek temporary or permanent changes to regulatory rules. Certain of these actions may require regulatory approval and/or agreement of counterparties which are outside of our control or have economic costs associated with them.

We maintain committed unsecured revolving credit facilities that, as of December 31, 2009, totaled $4.34 billion. We rely on these credit facilities as a potential source of liquidity which could be critical in enabling us to meet our obligations as they come due, particularly during periods when alternative sources of liquidity are

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limited such as in the recent market environment. Our ability to borrow under these facilities is conditioned on our satisfaction of covenants and other requirements contained in the facilities, such as Prudential Insurance s maintenance of total adjusted capital of at least $5.5 billion based on statutory accounting principles prescribed under New Jersey law and Prudential Financial s maintenance of consolidated net worth of at least $12.5 billion, which for this purpose is based on U.S. GAAP stockholders equity, excluding net unrealized gains and losses on investments. Our failure to satisfy these and other requirements contained in the credit facilities would restrict our access to the facilities when needed and, consequently, could have a material adverse effect on our financial condition and results of operations.

Our asset management operations include real estate held in Prudential Insurance separate accounts, for the benefit of clients, which enter into forward commitments which typically are funded from separate account assets and cash flows and related funding sources. Owing to the recent adverse credit and real estate capital market conditions, which have also impacted fund liquidity, these separate accounts could experience challenges funding commitments in the normal course. In that case, Prudential Insurance might be called upon or required to provide interim funding solutions, which could affect the availability of liquidity for other purposes.

Market fluctuations and general economic, market and political conditions may adversely affect our business and profitability.

Even under relatively favorable market conditions, our insurance and annuities products and certain of our investment products, as well as our investment returns and our access to and cost of financing, are sensitive to fixed income, equity, real estate and other market fluctuations and general economic, market and political conditions. These fluctuations and conditions could adversely affect our results of operations, financial position and liquidity, including in the following respects:

- The profitability of many of our insurance and annuities products depends in part on the value of the separate accounts supporting these products, which fluctuate substantially depending on the foregoing conditions.

- Market conditions resulting in reductions in the value of assets we manage have an adverse effect on the revenues and profitability of our asset management services, which depend on fees related primarily to the value of assets under management, and could further decrease the value of our proprietary investments.

- A change in market conditions, including prolonged periods of high inflation, could cause a change in consumer sentiment adversely affecting sales and persistency of our long-term savings and protection products. Similarly, changing economic conditions and unfavorable public perception of financial institutions can influence customer behavior, including but not limited to increasing claims in certain product lines.

- Sales of our investment-based and asset management products and services may decline, and lapses and surrenders of variable life and annuity products and withdrawals of assets from other investment products may increase if a market downturn, increased market volatility or other market conditions result in customers becoming dissatisfied with their investments or products.

- A market decline could further result in guaranteed minimum benefits contained in many of our variable annuity products being higher than current account values or our pricing assumptions would support, requiring us to materially increase reserves for such products and may cause customers to retain contracts in force in order to benefit from the guarantees, thereby increasing their cost to us. Our valuation of the liabilities for the minimum benefits contained in many of our variable annuity products requires us to consider the market perception of our risk of non-performance, and a decrease in our own credit spreads resulting from ratings upgrades or other events or market conditions could cause the recorded value of these liabilities to increase, which in turn could adversely affect our results of operations and financial position.

Market conditions determine the availability and cost of the reinsurance protection we purchase. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable terms which could adversely affect the profitability of future business or our willingness to write future business.

Hedging instruments we hold to manage foreign exchange, product, and other risks might not perform as intended or expected resulting in higher realized losses and unforeseen cash needs. Market conditions can limit availability of hedging instruments and also further increase the cost of executing product related hedges and such costs may not be recovered in the pricing of the underlying products being hedged. Our hedging strategies rely on the performance of counterparties to such hedges. These counterparties may fail to perform for various reasons resulting in unhedged exposures and losses on uncollateralized positions.

We have significant investment and derivative portfolios, including but not limited to corporate and asset-backed securities, equities and commercial real estate. Economic conditions as well as adverse capital market conditions, including but not limited to a lack of buyers in the marketplace, volatility, credit spread changes, benchmark interest rate changes, and declines in value of underlying collateral will impact the credit quality, liquidity and value of our investments and derivatives, potentially resulting in higher capital charges and unrealized or realized losses, the latter especially if we were to need to sell a significant amount of investments under such conditions. For example, a widening of credit spreads increases the net unrealized loss position of our investment portfolio and may ultimately result in increased realized losses. Values of our investments and derivatives can also be impacted by reductions in price transparency, changes in assumptions or inputs we use in estimating fair value and changes in investor confidence and preferences, potentially resulting in higher realized or unrealized losses. Volatility can make it difficult to value certain of our securities if trading becomes less frequent. Valuations may include assumptions or estimates that may have significant period to period changes which could have a material adverse effect on our results of operations or financial condition and in certain cases under U.S. GAAP such period to period changes in the value of investments are not recognized in our results of operations or consolidated statements of financial condition.

Opportunities for investment of available funds, including proceeds received from the sale of the Company s interest in the Wachovia Securities (Wells Fargo Advisors) retail brokerage joint venture, at appropriate returns may be limited, with a possible negative impact on our overall results.

Regardless of market conditions, certain investments we hold, including private bonds and commercial mortgages, are relatively illiquid. If we needed to sell these investments, we may have difficulty doing so in a timely manner at a price that we could otherwise realize.

Fluctuations in our operating results and the impact on our investment portfolio may impact the Company s tax profile and its ability to optimally utilize tax attributes.

Interest rate fluctuations could adversely affect our businesses and profitability.

Our insurance and annuities products and certain of our investment products, and our investment returns, are sensitive to interest rate fluctuations, and changes in interest rates could adversely affect our investment returns and results of operations, including in the following respects:

Some of our products expose us to the risk that changes in interest rates will reduce the spread between the amounts that we are required to pay under the contracts and the rate of return we are able to earn on our general account investments supporting the contracts. When interest rates decline, we have to reinvest the cash income from our investments in lower yielding instruments. Since many of our policies and contracts have guaranteed minimum interest or crediting rates or limit the resetting of interest rates, the spreads could decrease and potentially become negative. When interest rates rise, we may not be able to replace the assets in our general account with the higher yielding assets needed to fund the higher crediting rates necessary to keep these products and contracts competitive. This risk is heightened in market and economic conditions such as we have recently experienced, in which many desired securities may be unavailable.

Changes in interest rates may reduce net investment income and thus our spread income which is a substantial portion of our profitability. Changes in interest rates can also result in potential losses in our investment activities in which we borrow funds and purchase investments to earn additional spread income on the borrowed funds. A decline in market interest rates could also reduce our returns from investment of equity.

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When interest rates rise, policy loans and surrenders and withdrawals of life insurance policies and annuity contracts may increase as policyholders seek to buy products with perceived higher returns, requiring us to sell investment assets potentially resulting in realized investment losses, or requiring us to accelerate the amortization of DAC or VOBA (both defined below).

A decline in interest rates accompanied by unexpected prepayments of certain investments could result in reduced investments and a decline in our profitability. An increase in interest rates accompanied by unexpected extensions of certain lower yielding investments could result in a decline in our profitability.

Changes in the relationship between long-term and short-term interest rates could adversely affect the profitability of some of our products.

Changes in interest rates could increase our costs of financing.

Our mitigation efforts with respect to interest rate risk are primarily focused on maintaining an investment portfolio with diversified maturities that has a weighted average duration that is approximately equal to the duration of our estimated liability cash flow profile. However, there are practical and capital market limitations on our ability to accomplish this, especially in some of our Asian operations, and our estimate of the liability cash flow profile may be inaccurate. Due to these and other factors we may need to liquidate investments prior to maturity at a loss in order to satisfy liabilities or be forced to reinvest funds in a lower rate environment. Although we take measures to manage the economic risks of investing in a changing interest rate environment, we may not be able to effectively mitigate, and may choose based on factors, including economic considerations, not to fully mitigate, the interest rate risk of our assets relative to our liabilities.

If our reserves for future policyholder benefits and claims are inadequate, we may be required to increase our reserves, which would adversely affect our results of operations and financial condition.

We establish and carry reserves to pay future policyholder benefits and claims. Our reserves do not represent an exact calculation of liability, but rather are actuarial or statistical estimates based on models that include many assumptions and projections which are inherently uncertain and involve the exercise of significant judgment, including as to the levels of and/or timing of receipt or payment of premiums, benefits, claims, expenses, interest credits, investment results (including equity market returns), retirement, mortality, morbidity and persistency. We cannot determine with precision the ultimate amounts that we will pay for, or the timing of payment of, actual benefits, claims and expenses or whether the assets supporting our policy liabilities, together with future premiums, will be sufficient for payment of benefits and claims. If we conclude that our reserves, together with future premiums, are insufficient to cover future policy benefits and claims, we would be required to increase our reserves and incur income statement charges for the period in which we make the determination, which would adversely affect our results of operations and financial condition.

For certain of our products, market performance and interest rates impact the level of statutory reserves and statutory capital we are required to hold, and may have an adverse effect on returns on capital associated with these products. For example, equity market declines in the fourth quarter of 2008 caused a significant increase in the level of statutory reserves and statutory capital we are required to hold in relation to our Individual Annuities business. Capacity for reserve funding structures available in the marketplace may be limited as a result of market conditions generally. Our ability to efficiently manage capital and economic reserve levels may be impacted, thereby impacting profitability and return on capital.

Our profitability may decline if mortality rates, morbidity rates or persistency rates differ significantly from our pricing expectations.

We set prices for many of our insurance and annuity products based upon expected claims and payment patterns, using assumptions for mortality rates, or likelihood of death, and morbidity rates, or likelihood of sickness, of our policyholders. In addition to the potential effect of natural or man-made disasters, significant changes in mortality or morbidity could emerge gradually over time, due to changes in the natural environment, the health habits of the insured population, treatment patterns for disease or disability, the economic environment, or other factors. Pricing of our insurance and deferred annuity products are also based in part upon expected persistency of these products, which is the probability that a policy or contract will remain in force from one period to the next. Persistency within our Individual Annuities business may be significantly impacted by the value of guaranteed minimum benefits contained in many of our variable annuity products being higher than current account values in light of equity market declines. Results may also vary based on differences between actual and expected premium deposits and withdrawals for these products. The development of a secondary market for life insurance, including life settlements or viaticals and investor owned life insurance, and to a lesser extent third-party investor strategies in the annuities market, could adversely affect the profitability of existing business and our pricing assumptions for new business. Significant deviations in actual experience from our pricing assumptions could have an adverse effect on the profitability of our products. Although some of our products permit us to increase premiums or adjust other charges and credits during the life of the policy or contract, the adjustments permitted under the terms of the policies or contracts may not be sufficient to maintain profitability. Many of our products do not permit us to increase premiums or adjust other charges and credits or limit those adjustments during the life of the policy or contract.

We may be required to accelerate the amortization of deferred policy acquisition costs, or DAC, or valuation of business acquired, or VOBA, or recognize impairment in the value of our goodwill or certain investments, or be required to establish a valuation allowance against deferred income tax assets, any of which could adversely affect our results of operations and financial condition.

Deferred policy acquisition costs, or DAC, represent the costs that vary with and are related primarily to the acquisition of new and renewal insurance and annuity contracts, and we amortize these costs over the expected lives of the contracts. Valuation of business acquired, or VOBA, represents the present value of future profits embedded in acquired insurance, annuity and investment-type contracts and is amortized over the expected effective lives of the acquired contracts. Management, on an ongoing basis, tests the DAC and VOBA recorded on our balance sheet to determine if these amounts are recoverable under current assumptions. In addition, we regularly review the estimates and assumptions underlying DAC and VOBA for those products for which we amortize DAC and VOBA in proportion to gross profits or gross margins. Given changes in facts and circumstances, these tests and reviews could lead to reductions in DAC and/or VOBA that could have an adverse effect on the results of our operations and our financial condition. Significant or sustained equity market declines as well as investment losses could result in acceleration of amortization of the DAC and VOBA related to variable annuity and variable universal life contracts, resulting in a charge to income.

Goodwill represents the excess of the amounts we paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. Goodwill is assessed annually for potential impairment, or more frequently if conditions warrant, by comparing the carrying value (equity attributed to a business to support its risk) of a business to its estimated fair value at that date. As of December 31, 2009, we had a goodwill balance of $709 million, including $444 million related to our Retirement reporting unit, $242 million related to our Asset Management reporting unit and $23 million related to our International Insurance reporting unit. Further market declines or other events impacting the fair value of these businesses, or increases in the level of equity required to support these businesses, could result in goodwill impairments, resulting in a charge to income.

As of December 31, 2009, we had operating equity method investments primarily within our International Investments business, of $325 million. Declines in the fair value of these investments may require that we review the remaining carrying value of these investments for potential impairment, and such review could result in impairments and charges to income.

Deferred income tax represents the tax effect of the differences between the book and tax basis of assets and liabilities. Deferred tax assets are assessed periodically by management to determine if they are realizable. Factors in management s determination include the performance of the business including the ability to generate capital gains from a variety of sources and tax planning strategies. If based on available information, it is more likely than not that the deferred income tax asset will not be realized then a valuation allowance must be established with a corresponding charge to net income. Such charges could have a material adverse effect on our results of operations or financial position.

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Our valuation of fixed maturity, equity and trading securities may include methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our results of operations or financial condition.

During periods of market disruption, it may be difficult to value certain of our securities, such as sub-prime mortgage backed securities, if trading becomes less frequent and/or market data becomes less observable. There are and may continue to be cases where certain asset classes that were in active markets with significant observable data have become inactive or for which data becomes unobservable due to the current financial environment or market conditions. As a result, valuations may include inputs and assumptions that are less observable or require greater estimation and judgment as well as valuation methods which are more complex. These values may not be ultimately realizable in a market transaction, and such values may change very rapidly as market conditions change and valuation assumptions are modified. Decreases in value may have a material adverse effect on our results of operations or financial condition.

The decision on whether to record an other-than-temporary impairment or write-down is determined in part by management s assessment of the financial condition and prospects of a particular issuer, projections of future cash flows and recoverability of the particular security. Management s conclusions on such assessments are highly judgmental and include assumptions and projections of future cash flows which may ultimately prove to be incorrect as assumptions, facts and circumstances change.

For a discussion of certain fixed maturity securities where the estimated fair value has declined and remained below amortized cost by more than 20%, see Management s Discussion and Analysis of Financial Condition and Results of Operations Realized Investment Gains and Losses and General Account Investments Unrealized Losses from Fixed Maturity Securities.

We have experienced and may experience additional downgrades in our claims-paying or credit ratings. A downgrade or potential downgrade in our claims-paying or credit ratings could limit our ability to market products, increase the number or value of policies being surrendered, increase our borrowing costs and/or hurt our relationships with creditors or trading counterparties and restrict our access to alternative sources of liquidity.

Claims-paying ratings, which are sometimes referred to as financial strength ratings, represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy, and are important factors affecting public confidence in an insurer and its competitive position in marketing products, including Prudential Insurance and our other insurance company subsidiaries. Credit ratings represent the opinions of rating agencies regarding an entity s ability to repay its indebtedness, and Prudential Financial s credit ratings are important to our ability to raise capital through the issuance of debt and to the cost of such financing. A downgrade in our claims-paying or credit ratings could potentially, among other things, limit our ability to market products, reduce our competitiveness, increase the number or value of policy surrenders and withdrawals, increase our borrowing costs and potentially make it more difficult to borrow funds, adversely affect the availability of financial guarantees, such as letters of credit, cause additional collateral requirements under certain agreements, allow counterparties to terminate derivative agreements, and/or hurt our relationships with creditors or trading counterparties. In addition, actions we might take to access third party financing or to realign our capital structure may in turn cause rating agencies to reevaluate our ratings.

In view of the difficulties experienced recently by many financial institutions, the rating agencies have heightened the level of scrutiny that they apply to such institutions, have increased the frequency and scope of their credit reviews, have requested additional information from the companies that they rate, and may adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels, such as the financial strength ratings currently held by our life insurance subsidiaries. The outcome of such reviews may have adverse ratings consequences, which could have a material adverse effect on our results of operation and financial condition. For a description of the Company s claims paying and credit ratings and the significant changes to those ratings and rating outlooks in 2009, see

Management s Discussion and Analysis of Financial Condition and Results of Operations Ratings.

Prudential Insurance has been a member of the Federal Home Loan Bank of New York, or FHLBNY, since June 2008. Membership allows Prudential Insurance to participate in FHLBNY s product line of financial

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services, including collateralized advances, collateralized funding agreements and general asset/liability management that can be used for liquidity management and as an alternative source of funding. Under FHLBNY guidelines, if Prudential Insurance s claims-paying ratings decline below certain levels and the FHLBNY does not receive written assurances from the New Jersey Department of Banking and Insurance regarding Prudential Insurance s solvency, new borrowings from the FHLBNY would be limited to a term of 90 days or less. Although Prudential Insurance s ratings are currently at or above the required minimum levels, there can be no assurance that the ratings will remain at these levels in the future.

We cannot predict what additional actions rating agencies may take, or what actions we may take in response to the actions of rating agencies, which could adversely affect our business. As with other companies in the financial services industry, our ratings could be downgraded at any time and without notice by any rating agency.

Ratings downgrades and changes in credit spreads may require us to post collateral, thereby affecting our liquidity, and we may be unable to effectively implement certain capital management activities as a result, or for other reasons.

A downgrade in the credit or financial strength ratings of Prudential Financial or its rated subsidiaries could result in additional collateral requirements or other required payments under certain agreements, including derivative agreements, which are eligible to be satisfied in cash or by posting securities held by the subsidiaries subject to the agreements. A ratings downgrade of three ratings levels from the ratings levels at December 31, 2009 would result in estimated collateral posting requirements or payments under such agreements of approximately $185 million. In addition, a ratings downgrade by A.M. Best to A- for our domestic life insurance companies would require Prudential Insurance to post a letter of credit in the amount of approximately $1.3 billion, based on the level of statutory reserves related to an acquired business, that we estimate would result in annual cash outflows of approximately $18 million, or collateral posting in the form of cash or securities to be held in a trust.

In addition, agreements in connection with capital management activities for our universal life insurance products would require us to post cash collateral based on tests that consider the level of 10-year credit default swap spreads on Prudential Financial s senior debt. As of December 31, 2009, no collateral amounts were required to be paid.

The NAIC has adopted a Model Regulation entitled Valuation of Life Insurance Policies, commonly known as Regulation XXX, and a supporting Guideline entitled The Application of the Valuation of Life Insurance Policies, commonly known as Guideline AXXX. The Regulation and supporting Guideline require insurers to establish statutory reserves for term and universal life insurance policies with long-term premium guarantees that are consistent with the statutory reserves required for other individual life insurance policies with similar guarantees. Many market participants believe that this level of reserves is excessive, and we have implemented reinsurance and capital management actions to mitigate the impact of Regulation XXX and Guideline AXXX on our term and universal life insurance business. As we continue to underwrite term and universal life business, we expect to have borrowing needs in 2010 to finance statutory reserves required under Regulation XXX and Guideline AXXX. Several strategies are currently under review to reduce the strain of increased AXXX and XXX statutory reserves associated with our term and universal life products. The activities we may undertake to mitigate or address these needs include obtaining letters of credit, entering into reinsurance transactions or executing other capital market strategies; however, our ability to successfully execute these strategies may depend on market conditions. Based on current market conditions and absent any successful mitigation efforts, we currently believe that our financing need for 2010 could be up to $900 million for XXX and AXXX combined; however this need is expected to be met with a combination of the activities described above. If we are unsuccessful in satisfying or mitigating this strain as a result of market conditions or otherwise, this financing need could require us to increase prices and or/reduce our sales of term or universal life products and/or have a negative impact on our capital position.

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Losses due to defaults by others, including issuers of investment securities or reinsurance, bond insurers and derivative instrument counterparties, downgrades in the ratings of securities we hold or of bond insurers, insolvencies of insurers in jurisdictions where we write business and other factors affecting our counterparties or the value of their securities could adversely affect the value of our investments, the realization of amounts contractually owed to us, result in assessments or additional statutory capital requirements or reduce our profitability or sources of liquidity.

Issuers and borrowers whose securities or loans we hold, customers, vendors, trading counterparties, counterparties under swaps and other derivative contracts, reinsurers, clearing agents, exchanges, clearing houses and other financial intermediaries and guarantors, including bond insurers, may default on their obligations to us or be unable to perform service functions that are significant to our business due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, operational failure, fraud or other reasons. Such defaults, instances of which have occurred in recent months, could have an adverse effect on our results of operations and financial condition. A downgrade in the ratings of bond insurers could also result in declines in the value of our fixed maturity investments supported by guarantees from bond insurers.

In addition, we use derivative instruments to hedge various risks, including certain guaranteed minimum benefits contained in many of our variable annuity products. We enter into a variety of derivative instruments, including options, forwards, interest rate, credit default and currency swaps with a number of counterparties. Our obligations under our variable annuity products are not changed by our hedging activities and we are liable for our obligations even if our derivative counterparties do not pay us. This is a more pronounced risk to us in view of the recent stresses suffered by financial institutions. Such defaults could have a material adverse effect on our financial condition and results of operations.

Under state insurance guaranty association laws and similar laws in international jurisdictions, we are subject to assessments, based on the share of business we write in the relevant jurisdiction, for certain obligations of insolvent insurance companies to policyholders and claimants.

Amounts that we expect to collect under current and future contracts, including, but not limited to reinsurance contracts, are subject to counterparty risk.

We use reinsurance as part of our capital management with respect to our Closed Block Business. Ratings downgrades or financial difficulties of reinsurers may require us to utilize additional capital with respect to the business.

The eligible collateral that Prudential Insurance is required to pledge to the FHLBNY in support of its borrowings includes qualifying mortgage-related assets, such as commercial mortgage-backed securities. The major rating agencies have downgraded the credit ratings of certain commercial mortgage-backed securities and may continue to do so. If future downgrades affect the commercial mortgage-backed securities pledged by Prudential Insurance to the FHLBNY, those securities would no longer constitute eligible collateral under FHLBNY guidelines. This could require Prudential Insurance to repay outstanding borrowings or to pledge replacement collateral to the FHLBNY, which could materially reduce the Company s borrowing capacity from the FHLBNY and/or prevent use of that replacement collateral for asset-based financing transactions.

Intense competition, including the impact of government sponsored programs and other actions on us and our competitors, could adversely affect our ability to maintain or increase our market share or profitability.

In each of our businesses we face intense competition from domestic and foreign insurance companies, asset managers and diversified financial institutions, both for the ultimate customers for our products and, in many businesses, for distribution through non-affiliated distribution channels. We compete based on a number of factors including brand recognition, reputation, quality of service, quality of investment advice, investment performance of our products, product features, scope of distribution and distribution arrangements, price, perceived financial strength and claims-paying and credit ratings. A decline in our competitive position as to one or more of these factors could adversely affect our profitability and assets under management. Many of our competitors are large and well established and some have greater market share or breadth of distribution, offer a broader range of products, services or features, assume a greater level of risk, have lower profitability expectations or have higher claims-paying or credit ratings than we do. We could be subject to claims by competitors that our products, benefits, features, or the administration thereof, infringe their patents, which could adversely affect our sales, profitability and financial position. The proliferation and growth of non-affiliated distribution channels puts pressure on our captive sales channels to increase their productivity and reduce their costs in order to remain competitive, and we run the risk that the marketplace will make a more significant or rapid shift to non-affiliated or direct distribution alternatives than we anticipate or are able to achieve ourselves, potentially adversely affecting our market share and results of operations. Competition for personnel in all of our businesses is intense, including for Prudential Agents, Life Planners and Life Advisors, other face-to-face sales personnel, desirable non-affiliated distribution channels and our investment managers. The loss of personnel could have an adverse effect on our business and profitability.

The adverse market and economic conditions that began in the second half of 2007 and continued into 2009 have resulted in changes in the competitive landscape. For example, the financial distress experienced by certain financial services industry participants as a result of such conditions, including government mandated sales of certain businesses, may lead to favorable acquisition opportunities, although our ability or that of our competitors to pursue such opportunities may be limited due to lower earnings, reserve increases, and a lack of access to debt capital markets and other sources of financing. Such conditions may also lead to changes by us or our competitors in product offerings, product pricing and business mix that could affect our and their relative sales volumes, market shares and profitability. It is also possible that such conditions may put U.S. companies like us with financial operations in non-U.S. locations at a competitive disadvantage relative to domestic companies operating in those locations and may impact sales in those locations. Additionally, the competitive landscape in which we operate may be further affected by the government sponsored programs in the U.S. and similar governmental actions outside of the U.S. in response to the dislocations in financial markets. Competitors receiving governmental financing or other assistance or subsidies, including governmental guarantees of their obligations, may obtain pricing or other competitive advantages.

Governmental actions in response to the recent financial crisis could subject us to substantial additional regulation.

The U.S. federal government and other governments around the world have taken and are considering taking actions to address the recent financial crisis, which are significant. We cannot predict with any certainty whether these actions will be effective or the effect they may have on the financial markets or on our business, results of operations, cash flows and financial condition. Governmental actions in response to the recent financial crisis could subject us to substantial additional regulation in the United States and internationally.

Actions taken and being considered by the U.S. federal government to address the recent financial crisis include mortgage and credit card program modification requirements that could impact our business and investments, particularly our mortgage and consumer debt related investments.

During 2009, the Obama Administration and Congress announced proposals to reform the national regulation of financial services and financial institutions. Depending on the manner of adoption of these or other proposals, we could become subject to increased federal regulation. On December 11, 2009, the House of Representatives approved H.R. 4173, the Wall Street Reform and Consumer Protection Act of 2009. H.R. 4173, if enacted, could affect the Company in a number of ways. In particular, Prudential Financial would become subject to regulation as a thrift holding company by the Board of Governors of the Federal Reserve System (the FRB), which could exercise its authority in a manner different from current regulation by the Office of Thrift Supervision, including the imposition of capital or other prudential requirements on Prudential Financial. In addition, Prudential Financial, or one of its subsidiaries, could be designated as a financial company subject to stricter prudential standards imposed by a newly established financial services oversight council, composed principally of federal regulators and with the FRB acting as its agent, if this council were to determine that material financial distress at the Company or the scope of the Company s activities could pose a threat to financial stability or the economy. If so designated, we would become subject to unspecified stricter prudential standards, including stricter requirements and limitations relating to capital, leverage, liquidity, debt to income ratios, and counterparty exposure, as well as overall risk management requirements and a requirement to maintain a plan for rapid and orderly dissolution in the event of severe financial distress. Moreover, if so

designated, failure by the Company to satisfy the capitalization requirements imposed could or would result, depending on the degree of under-capitalization, in additional restrictions on or requirements with respect to our business activities, such as restrictions on dividends or stock repurchases, asset growth or transactions with affiliates or requirements to develop and/or implement a capital restoration plan, obtain prior approval for acquisitions or new business lines, divest business lines, replace directors or officers or implement restrictions on senior management compensation.

In addition to heightened regulation of certain financial institutions, H.R. 4173, if enacted, would authorize the FRB to recommend the imposition of stricter prudential standards to activities and practices identified as posing heightened systemic risk. It is possible that any standards so imposed could have significant effects on the Company s business.

We cannot predict whether Prudential Financial, any of its subsidiaries, or any of the Company s activities might be designated for stricter standards, if the bill s provisions became law. Nor can we predict what standards might be imposed, or what impact such standards would have on our business, financial condition or results of operations.

If enacted, H.R. 4173 would also establish a Federal Insurance Office within the Department of the Treasury to be headed by a director appointed by the Secretary of the Treasury. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office would perform various functions with respect to insurance (other than health insurance), including serving as a non-voting member of the financial services oversight council referred to above and participating in that council s decisions regarding insurers (potentially including the Company) to be designated for stricter regulation. The director would also be required to conduct a study on how to modernize and improve the system of insurance regulation in the United States, including by increased national uniformity through either a federal charter or effective action by the states.

If enacted, H.R. 4173, would also subject the Company to a risk-based assessment imposed by the Federal Deposit Insurance Company (FDIC) to create a Systemic Resolution Fund to pay for the special dissolution of financial companies for which a determination has been made that such resolution is necessary to prevent harm to the financial stability of the United States. It is not possible to quantify what that assessment might be, although it could be significant. Prudential Financial is among the class of companies that theoretically could be subject to the special dissolution regime, which would authorize the FDIC to act as Prudential Financial s receiver in a proceeding defined by H.R. 4173 in lieu of a proceeding under the Federal bankruptcy code.

In addition, if enacted, H.R. 4173 would create a new framework for regulation of over-the-counter (OTC) derivatives markets that could impact Prudential Global Funding s (PGF) activities. If the CFTC and the SEC did not exercise their discretion to exclude PGF from the class of regulated derivatives dealers because of the limited nature of its activities, PGF would be compelled to meet capital, margin, clearing and execution rules otherwise imposed by the bill, which could significantly impact the cost of its operations.

Another section of H.R. 4173, the Investor Protection Act, if enacted, would, among other things, require the SEC to impose on registered broker-dealers that provide retail investors personalized investment advice about securities a new standard of conduct the same as the overall standard for investment advisers (i.e. a fiduciary standard). The Investor Protection Act would also require broker-dealers selling proprietary or a limited range of products to make certain disclosures and obtain customer consents or acknowledgements. We cannot predict the precise nature of the regulations the SEC would implement were H.R. 4173 enacted, but they could impact the manner in which certain of our businesses operate.

The Senate has not approved comparable legislation, although proposals include provisions addressing special resolution authority for failing financial institutions, systemic risk regulation, and increased derivatives oversight, which could impact Prudential. We cannot predict the form in which proposals will finally be adopted (if at all) or their applicability to or effect on our business, financial condition or results of operation.

On February 1, 2010, the Obama Administration released the General Explanations of the Administration s Revenue Proposals, which includes proposed legislation that would impose a Financial Crisis Responsibility

Fee (FCRF) on certain financial institutions with over $50 billion in consolidated assets as of January 14, 2010. As proposed, the FCRF would apply to insurance companies or other companies that own insured depositories, which would include the Company. The FCRF would be imposed at a rate of approximately 15 basis points on the worldwide consolidated liabilities of companies subject to the FCRF, which includes a broad set of liabilities with a few exceptions, including certain policy-related liabilities of insurance companies. The FCRF would be imposed effective as of July 1, 2010. The amount of the FCRF that would be imposed upon the Company under this proposal, in the event it is enacted into law, is unclear, but could be substantial.

Additionally, in January 2010, the Administration announced its intention to propose legislation that would prohibit a bank or financial institution that contains a bank from owning, investing in or sponsoring a hedge fund or private equity fund, or engaging in proprietary trading operations unrelated to serving customers for its own profit. Depending on how it is drafted, this proposal, if enacted, could apply to the Company. The impact, if any, that such an adopted proposal would have on the business, financial condition or results of operation of the Company is unclear. We cannot predict the form in which these proposals will finally be adopted (if at all) or their applicability to or effect on our business, financial condition or results of operation.

In addition to these proposals and initiatives in the United States, regulators and law makers around the world are actively reviewing the causes of the financial crisis and exploring steps to avoid similar problems in the future. In many respects, this work is being led by the Financial Stability Board (FSB), consisting of representatives of national financial authorities of the G20 nations. The G20 and the FSB have issued a series of papers and recommendations intended to produce significant changes in how financial companies, particularly companies that are members of large and complex financial groups, should be regulated. These proposals address such issues as financial group supervision, capital and solvency standards, systemic economic risk, corporate governance including executive compensation, and a host of related issues associated with responses to the financial crisis. The law makers and regulatory authorities in a number of jurisdictions in which we do business have already begun introducing legislative and regulatory changes consistent with G20 and FSB recommendations, including proposals governing consolidated regulation of insurance holding companies by the Financial Services Agency (FSA) in Japan, proposals governing executive compensation by the financial regulators in Germany (BaFIN) and the United Kingdom (FSA), and proposals to permit U.S.-style class action litigation in the United Kingdom with respect to financial services claims.

Changes in U.S. federal income tax law or in the income tax laws of other jurisdictions in which we operate could make some of our products less attractive to consumers and increase our tax costs.

Current U.S. federal income tax laws generally permit certain holders to defer taxation on the build-up of value of annuities and life insurance products until payments are actually made to the policyholder or other beneficiary and to exclude from taxation the death benefit paid under a life insurance contract. Congress from time to time considers legislation that could make our products less attractive to consumers, including legislation that would reduce or eliminate the benefit of this deferral on some annuities and insurance products, as well as other types of changes that could reduce or eliminate the attractiveness of annuities and life insurance products to consumers, such as repeal of the estate tax.

Under current law, the estate tax is completely eliminated for 2010. Thereafter, the tax is reinstated using the exclusion limit and rates in effect in 2001. It is unclear if Congress will keep current law in place or take action to reinstate the estate tax, possibly retroactively to the beginning of 2010. This uncertainty makes estate planning difficult and may impact sales of our products.

Congress, as well as state and local governments, also considers from time to time legislation that could increase the amount of corporate taxes we pay. For example, changes in the law relating to tax reserving methodologies for term life or universal life insurance policies with secondary guarantees or other products could result in higher corporate taxes. If such legislation were adopted, our consolidated net income could decline.

The U.S. Treasury Department and the Internal Revenue Service have indicated that they intend to address through regulations the methodology to be followed in determining the dividends received deduction, or DRD, related to variable life insurance and annuity contracts. The DRD reduces the amount of dividend income subject to tax and is a significant component of the difference between our actual tax expense and the expected amount determined using the federal statutory tax rate of 35%. A change in the DRD, including the possible retroactive or prospective elimination of this deduction through regulations or legislation, could increase our actual tax expense and reduce our consolidated net income.

On February 1, 2010, the Obama Administration released the General Explanations of the Administration s Revenue Proposals or Revenue Proposals. Although the Administration has not released proposed statutory language, the Revenue Proposals includes proposals which if enacted, would affect the taxation of life insurance companies and certain life insurance products. In particular, the proposals would affect the treatment of corporate owned life insurance policies, or COLIs, by limiting the availability of certain interest deductions for companies that purchase those policies. The proposals would also change the method used to determine the amount of dividend income received by a life insurance company on assets held in separate accounts used to support products, including variable life insurance and variable annuity contracts that are eligible for the DRD. If proposals of this type were enacted, the Company s sale of COLI, variable annuities, and variable life products could be adversely affected and the Company s actual tax expense could increase, thereby reducing earnings.

The Revenue Proposals also includes proposals that would change the method by which multinational corporations could claim credits for the foreign taxes they pay and that would change the timing of the deduction for interest expense that is allocable to foreign-source income. More specifically, it is likely that the proposals would impose additional restrictions on the Company s ability to claim foreign tax credits on un-repatriated earnings. The proposals would also require U.S. multinationals to defer the deduction for interest expense that is allocable to foreign source income until that income is subject to U.S. tax. Unused deductions would be carried forward to future years. If proposals of this type were enacted, the Company s actual tax expense could increase, thereby reducing earnings.

The federal government currently provides a tax free subsidy to the Company for providing certain retiree prescription drug benefits (the Medicare Part D subsidy). Both the House and Senate Finance Committee Health Reform Bills include a provision that would reduce the tax deductibility of retiree health care costs to the extent the Company receives a Medicare Part D subsidy. In effect, the provision would make the Medicare Part D subsidy taxable. While the outcome of health care legislation is uncertain, if a proposal of this type were enacted, the Company would incur a one-time charge to reflect the change in law. Thereafter, the Company s actual tax expense would increase, thereby reducing earnings.

Congress failed to extend a number of tax provisions that expired at the end of 2009. One such provision provides tax deferral for investment income earned by a foreign insurance operation until the income is repatriated to the U.S. Although the President and Congress have indicated an intention to extend retroactively all expired provisions, the failure of Congress to do so will subject the Company to current U.S. tax on investment income earned by its foreign insurance operations in addition to the local jurisdictions taxes. If this provision is not extended, the Company s actual tax expense would increase, thereby reducing earnings.

The large federal deficit, as well as the budget constraints faced by many states and localities, increases the likelihood that Congress and state and local governments will raise revenue by enacting legislation increasing the taxes paid by individuals and corporations. This can be accomplished either by raising rates or otherwise changing the tax rules. While higher tax rates increase the benefits of tax deferral on the build up of value of annuities and life insurance, making our products more attractive to consumers, legislation that reduces or eliminates deferral would have a potential negative effect on our products. In addition, changes in the tax rules that result in higher corporate taxes will increase the Company s actual tax expense, thereby reducing earnings.

The products we sell have different tax characteristics, in some cases generating tax deductions. The level of profitability of certain of our products are significantly dependent on these characteristics and our ability to continue to generate taxable income, which are taken into consideration when pricing products and are a component of our capital management strategies. Accordingly, a change in tax law, our ability to generate taxable income, or other factors impacting the availability or value of the tax characteristics generated by our products, could impact product pricing and returns or require us to reduce our sales of these products or implement other actions that could be disruptive to our businesses.

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We have substantial international operations and our international operations face political, legal, operational and other risks that could adversely affect those operations or our profitability.

A substantial portion of our revenues and income from continuing operations is derived from our operations outside the U.S., primarily Japan and Korea. These operations are subject to restrictions on transferring funds out of the countries in which these operations are located. Some of our foreign insurance and investment management operations are, and are likely to continue to be, in emerging markets where this risk as well as risks of discriminatory regulation, labor issues in connection with workers associations and trade unions, price controls, currency exchange controls, nationalization or expropriation of assets, are heightened. If our business model is not successful in a particular country, we may lose all or most of our investment in building and training our sales force in that country.

Many of our insurance products sold in international markets provide for the buildup of cash values for the policyholder at contractually fixed guaranteed interest rates, including in Japan. Actual returns on the underlying investments do not necessarily match the guaranteed interest rates and there may be times when the spread between the actual investment returns and these guaranteed rates of return to the policyholder is negative and in which this negative spread may not be offset by the mortality, morbidity and expense charges we earn on the products.

Our international businesses are subject to the tax laws and regulations of the countries in which they are organized and in which they operate. Foreign governments from time to time consider legislation that could increase the amount of taxes that we pay or impact the sales of our products.

Our international operations are regulated in the jurisdictions in which they are located or operate. These regulations may apply heightened scrutiny to non-domestic companies, which can reduce our flexibility as to intercompany transactions, investments and other aspects of business operations and adversely affect our liquidity, profitability, and regulatory capital.

Fluctuations in foreign currency exchange rates could adversely affect our profitability and cash flow.

As a U.S.-based company with significant business operations outside the U.S., particularly in Japan, we are exposed to foreign currency exchange risks that could reduce U.S. dollar equivalent earnings and equity of these operations as well as negatively impact our general account and other proprietary investment portfolios. We seek to mitigate these risks by employing various hedging strategies including entering into derivative contracts and holding U.S. dollar denominated assets within our Japanese subsidiaries. Currency fluctuations, including the effect of changes in the value of U.S. dollar investments that vary from the amounts ultimately needed to hedge our exposure to changes in the U.S. dollar equivalent of earnings and equity of these operations, may adversely affect our results of operations, cash flows or financial condition. Additionally, U.S. dollar denominated investments held in our Japanese subsidiaries could result, in the event of a significant strengthening of the yen, in additional liquidity or capital needs for our International Insurance operations.

Our businesses are heavily regulated and changes in regulation may reduce our profitability.

Our businesses are subject to comprehensive regulation and supervision. The purpose of this regulation is primarily to protect our customers and not necessarily our shareholders. Many of the laws and regulations to which we are subject, including those to which our international businesses are subject, are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations. This is particularly the case under current market conditions. It appears likely that the continuing financial markets dislocation will lead to extensive changes in existing laws and regulations, and regulatory frameworks, applicable to our businesses in the U.S. and internationally.

Prudential Financial is subject to the rules and regulations of the SEC and the NYSE relating to public reporting and disclosure, securities trading, accounting and financial reporting, and corporate governance matters. The Sarbanes-Oxley Act of 2002 and rules and regulations adopted in furtherance of that Act have substantially increased the requirements in these and other areas for public companies such as Prudential Financial. Changes in accounting requirements could have an impact on our reported results of operations and our reported financial position.

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Many insurance regulatory and other governmental or self-regulatory bodies have the authority to review our products and business practices and those of our agents and employees and to bring regulatory or other legal actions against us if, in their view, our practices, or those of our agents or employees, are improper. These actions can result in substantial fines, penalties or prohibitions or restrictions on our business activities and could adversely affect our business, reputation, results of operations or financial condition. For a discussion of material pending litigation and regulatory matters, see Legal Proceedings. Congress from time to time considers pension reform legislation that could decrease the attractiveness of certain of our retirement products and services to retirement plan sponsors and administrators, or have an unfavorable effect on our ability to earn revenues from these products and services. In this regard, the Pension Protection Act of 2006 (PPA) made significant changes in employer pension funding obligations associated with defined benefit pension plans which are likely to increase sponsors costs of maintaining these plans. Over time, these changes could hinder our sales of defined benefit pension products and services and cause sponsors to discontinue existing plans for which we provide asset management, administrative, or other services, but could increase the attractiveness of certain group annuity products we offer in connection with terminating pension plans. Certain tax-favored savings initiatives that have been proposed could hinder sales and persistency of our products and services that support employment based retirement plans.

Insurance regulators, as well as industry participants, have begun to implement significant changes in the way in which statutory reserves and statutory capital are determined particularly for products with embedded options and guarantees, and are considering further potentially significant changes in these requirements. Regulatory capital requirements based on scenario testing have already gone into effect for variable annuity products, and new reserving requirements for these products were implemented as of the end of 2009. The timing and extent of further changes to the statutory reporting framework are uncertain.

The Financial Services Agency, which is the insurance regulator in Japan, recently proposed revisions to the solvency margin requirements which will operate to change the manner in which an insurance company s core capital will be calculated. Under the proposals, certain financial assets will now be excluded from the core capital calculation and certain investment risk factors, including derivatives and foreign exchange, will be revised. These changes are expected to become effective for the fiscal year ending March 31, 2012; however, it is anticipated that companies may begin to publicly disclose both the old and new solvency margin calculations in the third quarter of 2010. While we believe that the solvency margins of our Japanese insurance subsidiaries would continue to satisfy regulatory requirements, it is possible that a reduction in the reported ratios arising from changes in the calculation requirements could affect our claims paying ratings or customer perception of our financial strength.

As discussed above, governmental actions in response to the recent financial crisis could subject us to substantial additional regulation. Significant regulatory changes are under consideration in the United States as well as in other jurisdiction in response to the crisis.

Compliance with applicable laws and regulations is time consuming and personnel-intensive, and changes in these laws and regulations may materially increase our direct and indirect compliance and other expenses of doing business, thus having a material adverse effect on our financial condition or results of operations.

See Business Regulation for further discussion of the impact of regulations on our businesses.

Legal and regulatory actions are inherent in our businesses and could adversely affect our results of operations or financial position or harm our businesses or reputation.

We are, and in the future may be, subject to legal and regulatory actions in the ordinary course of our businesses, including in businesses that we have divested or placed in wind-down status. Some of these proceedings have been brought on behalf of various alleged classes of complainants.

In certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damages. Substantial legal liability in these or future legal or regulatory actions could have an adverse affect on us or cause us reputational harm, which in turn could harm our business prospects.

Material pending litigation and regulatory matters affecting us, and certain risks to our businesses presented by such matters, are discussed under Legal Proceedings. Our litigation and regulatory matters are subject to

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many uncertainties, and given their complexity and scope, their outcome cannot be predicted. Our reserves for litigation and regulatory matters may prove to be inadequate. It is possible that our results of operations or cash flow in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation and regulatory matters depending, in part, upon the results of operations or cash flow for such period. In light of the unpredictability of the Company s litigation and regulatory matters, it is also possible that in certain cases an ultimate unfavorable resolution of one or more pending litigation or regulatory matters could have a material adverse effect on the Company s financial position.

The occurrence of natural or man-made disasters could adversely affect our results of operations and financial condition.

The occurrence of natural disasters, including hurricanes, floods, earthquakes, tornadoes, fires, explosions, pandemic disease and man-made disasters, including acts of terrorism and military actions, could adversely affect our results of operations or financial condition, including in the following respects:

- Catastrophic loss of life due to natural or man-made disasters could cause us to pay benefits at higher levels and/or materially earlier than anticipated and could lead to unexpected changes in persistency rates.

- A natural or man-made disaster could result in losses in our investment portfolio or the failure of our counterparties to perform, or cause significant volatility in global financial markets.

- A terrorist attack affecting financial institutions in the United States or elsewhere could negatively impact the financial services industry in general and our business operations, investment portfolio and profitability in particular. As previously reported, in August 2004, the U.S. Department of Homeland Security identified our Newark, New Jersey facilities, along with those of several other financial institutions in New York and Washington, D.C., as possible targets of a terrorist attack.

- Pandemic disease, caused by a virus such as H5N1, the avian flu virus, or H1N1, the swine flu virus, could have a severe adverse effect on Prudential Financial s business. The potential impact of such a pandemic on Prudential Financial s results of operations and financial position is highly speculative, and would depend on numerous factors, including: in the case of the avian flu virus, the probability of the virus mutating to a form that can be passed easily from human to human; the effectiveness of vaccines and the rate of contagion; the regions of the world most affected; the effectiveness of treatment for the infected population; the rates of mortality and morbidity among various segments of the insured versus the uninsured population; the collectability of reinsurance; the possible macroeconomic effects of a pandemic on the Company s asset portfolio; the effect on lapses and surrenders of existing policies, as well as sales of new policies; and many other variables.

There can be no assurance that our business continuation plans and insurance coverages would be effective in mitigating any negative effects on our operations or profitability in the event of a terrorist attack or other disaster.

Climate change, and its regulation, may affect the prospects of companies and other entities whose securities we hold and other counterparties, including reinsurers, and affect the value of investments, including real estate investments we hold or manage for others. Our initial evaluation is that the near term effects of climate change and climate change regulation on the Company are not material, but we cannot predict the long term impacts on us from climate change or its regulation.

Our risk management policies and procedures and our minority investments in joint ventures may leave us exposed to unidentified or unanticipated risk, which could adversely affect our businesses or result in losses.

Our policies and procedures to monitor and manage risks, including hedging programs that utilize derivative financial instruments, may not be fully effective and may leave us exposed to unidentified and unanticipated risks. The Company uses models in its hedging programs and many other aspects of its operations, including but not limited to the estimation of actuarial reserves, the amortization of deferred acquisition costs and the value of business acquired, and the valuation of certain other assets and liabilities. These models rely on assumptions and projections that are inherently uncertain. Management of operational, legal and regulatory risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective. Past or future misconduct by our employees or employees of our vendors could result in violations of law by us, regulatory sanctions and/or serious reputational or financial harm and the precautions we take to prevent and detect this activity may not be effective in all cases. A failure of our computer systems or a compromise of their security could also subject us to regulatory sanctions or other claims, harm our reputation, interrupt our operations and adversely affect our business, results of operations or financial condition.

In our investments in which we hold a minority interest, we lack management and operational control over operations, which may prevent us from taking or causing to be taken actions to protect or increase the value of those investments.

We face risks arising from acquisitions, divestitures and restructurings, including client losses, surrenders and withdrawals, difficulties in integrating and realizing the projected results of acquisitions and contingent liabilities with respect to dispositions.

We face a number of risks arising from acquisition transactions, including the risk that, following the acquisition or reorganization of a business, we could experience client losses, surrenders or withdrawals or other results materially different from those we anticipate, as well as difficulties in integrating and realizing the projected results of acquisitions and restructurings and managing the litigation and regulatory matters to which acquired entities are party. We have retained insurance or reinsurance obligations and other contingent liabilities in connection with our divestiture or winding down of various businesses, and our reserves for these obligations and liabilities may prove to be inadequate. These risks may adversely affect our results of operations or financial condition.

Changes in our discount rate, expected rate of return and expected compensation increase assumptions for our pension and other postretirement benefit plans may result in increased expenses and reduce our profitability.

We determine our pension and other postretirement benefit plan costs based on assumed discount rates, expected rates of return on plan assets and expected increases in compensation levels and trends in health care costs. Changes in these assumptions may result in increased expenses and reduce our profitability.

Our ability to pay shareholder dividends, to engage in share repurchases and to meet obligations may be adversely affected by limitations imposed on inter-affiliate distributions and transfers by Prudential Insurance and our other subsidiaries.

Prudential Financial is the holding company for all our operations, and dividends, returns of capital and interest income from its subsidiaries are the principal source of funds available to Prudential Financial to pay shareholder dividends, to make share repurchases and to meet its other obligations. These sources of funds may be complemented by Prudential Financial s access, if available, to the financial markets and bank facilities. As described under Business Regulation and in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources, our domestic and foreign insurance and various other subsidiary companies, including Prudential Insurance, are subject to regulatory limitations on the payment of dividends and on other transfers of funds to Prudential Financial. In addition to these regulatory limitations, the terms of the IHC debt contain restrictions potentially limiting dividends by Prudential Insurance applicable to the Financial Services Businesses in the event the Closed Block Business is in financial distress and under other circumstances. Finally, our management of Prudential Insurance and other subsidiaries to have capitalization consistent with their ratings objectives itself may constrain their payment of dividends. These restrictions on Prudential Financial s subsidiaries may limit or prevent such subsidiaries from making dividend payments to Prudential Financial in an amount sufficient to fund Prudential Financial s cash requirements and shareholder dividends. From time to time, the National Association of Insurance Commissioners, or NAIC, and various state and foreign insurance regulators have considered, and may in the future consider, proposals to further limit dividend payments that an insurance company may make without regulatory approval.

Difficult market conditions could also affect our ability to pay shareholder dividends. Our practice is to declare and pay dividends annually and the decision concerning Common Stock dividends is ordinarily made in the fourth quarter of the year.

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Regulatory requirements, provisions of our certificate of incorporation and by-laws and our shareholder rights plan could delay, deter or prevent a takeover attempt that shareholders might consider in their best interests.

Various states in which our insurance companies are domiciled, including New Jersey, must approve any direct or indirect change of control of insurance companies organized in those states. Under most states statutes, an entity is presumed to have control of an insurance company if it owns, directly or indirectly, 10% or more of the voting stock of that insurance company or its parent company. Federal, and in some cases, state, banking authorities would also have to approve the indirect change of control of our banking operations. The federal securities laws could also require reapproval by customers of our investment advisory contracts to manage mutual funds, including mutual funds included in annuity products, upon a change in control. In addition, the New Jersey Business Corporation Act prohibits certain business combinations with interested shareholders. These regulatory and other restrictions may delay a potential merger or sale of Prudential Financial, even if the Board of Directors decides that it is in the best interests of shareholders to merge or be sold.

Prudential Financial s certificate of incorporation and by-laws also contain provisions that may delay, deter or prevent a takeover attempt that shareholders might consider in their best interests. These provisions may adversely affect prevailing market prices for our Common Stock and include: a restriction on the filling of vacancies on the Board of Directors by shareholders; restrictions on the calling of special meetings by shareholders; a requirement that shareholders may take action without a meeting only by unanimous written consent; advance notice procedures for the nomination of candidates to the Board of Directors and shareholder proposals to be considered at shareholder meetings; and supermajority voting requirements for the amendment of certain provisions of the certificate of incorporation and by-laws. Prudential Financial s shareholders rights plan also creates obstacles that may delay, deter or prevent a takeover attempt that shareholders might consider in their best interests.

Holders of our Common Stock are subject to risks due to the issuance of our Class B Stock, a second class of common stock.

The businesses of Prudential Financial are separated into the Financial Services Businesses and the Closed Block Business, and our Common Stock reflects the performance of the Financial Services Businesses and the Class B Stock reflects the performance of the Closed Block Business. There are a number of risks to holders of our Common Stock by virtue of this dual common stock structure, including:

Even though we allocate all our consolidated assets, liabilities, revenue, expenses and cash flow between the Financial Services Businesses and the Closed Block Business for financial statement purposes, there is no legal separation between the Financial Services Businesses and the Closed Block Business. Holders of Common Stock have no interest in a separate legal entity representing the Financial Services Businesses; holders of the Class B Stock have no interest in a separate legal entity representing the Closed Block Business; and therefore holders of each class of common stock are subject to all of the risks associated with an investment in the Company.

The financial results of the Closed Block Business, including debt service on the IHC debt, will affect Prudential Financial s consolidated results of operations, financial position and borrowing costs.

The market value of our Common Stock may not reflect solely the performance of the Financial Services Businesses.

We cannot pay cash dividends on our Common Stock for any period if we choose not to pay dividends on the Class B Stock in an aggregate amount at least equal to the lesser of the CB Distributable Cash Flow or the Target Dividend Amount on the Class B Stock for that period. See Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Convertibility for the definition of these terms. Any net losses of the Closed Block Business, and any dividends or distributions on, or repurchases of the Class B Stock, would reduce the assets of Prudential Financial legally available for dividends on the Common Stock.

Net income for the Financial Services Businesses and the Closed Block Business 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 to the Financial Services Businesses from the Closed Block Business related to administrative expenses are determined by a policy servicing fee

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arrangement that is based upon insurance and policies in force and statutory cash premiums. The difference between the administrative expenses allocated to the Closed Block Business and these cash flow amounts are recorded, on an after tax basis, as direct equity adjustments to the equity balances of the businesses and included in the determination of earnings per share for each Business. A change in cash flow amounts between the Businesses that is inconsistent with changes in general and administrative expenses we incur will affect the earnings per share of the Common Stock and Class B Stock.

Holders of Common Stock and Class B Stock vote together as a single class of common stock under New Jersey law, except as otherwise required by law and except that the holders of the Class B Stock have class voting or consent rights with respect to specified matters directly affecting the Class B Stock.

Shares of Class B Stock are entitled to a higher proportionate amount upon any liquidation, dissolution or winding-up of Prudential Financial, than shares of Common Stock.

We may exchange the Class B Stock for shares of Common Stock at any time, and the Class B Stock is mandatorily exchangeable in the event of a sale of all or substantially all of the Closed Block Business or a change of control of Prudential Financial. Under these circumstances, shares of Class B Stock would be exchanged for shares of Common Stock with an aggregate average market value equal to 120% of the then appraised Fair Market Value of the Class B Stock. For a description of change of control and Fair Market Value, see Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Convertibility . Holders of Class B Stock may at their discretion, beginning in 2016, and at any time in the event of specified regulatory events, convert their shares of Class B Stock into shares of Common Stock with an aggregate average market value equal to 100% of the then appraised Fair Market Value of the Class B Stock. Any exchange or conversion could occur at a time when either or both of the Common Stock and Class B Stock may be considered overvalued or undervalued. Accordingly, any such exchange or conversion may be disadvantageous to holders of Common Stock.

Our Board of Directors has adopted certain policies regarding inter-business transfers and accounting and tax matters, including the allocation of earnings, with respect to the Financial Services Businesses and Closed Block Business. Although the Board of Directors may change any of these policies, any such decision is subject to the Board of Directors general fiduciary duties, and we have agreed with investors in the Class B Stock and the insurer of the IHC debt that, in most cases, the Board of Directors may not change these policies without their consent.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 1C. EXECUTIVE OFFICERS OF THE REGISTRANT

The names of the executive officers of Prudential Financial and their respective ages and positions, as of February 26, 2010, were as follows:

Name	Age	Title	Other Directorships
John R. Strangfeld, Jr.	56	Chairman, Chief Executive Officer and President	None
Mark B. Grier	57	Vice Chairman	None
Edward P. Baird	61	Executive Vice President, International Businesses	None
Richard J. Carbone	62	Executive Vice President and Chief Financial Officer	None
Robert C. Golden	63	Executive Vice President, Operations and Systems	None
Bernard B. Winograd	59	Executive Vice President, U.S. Businesses	None
Susan L. Blount	52	Senior Vice President and General Counsel	None
Helen M. Galt	62	Senior Vice President, Company Actuary and Chief Risk Officer	None
Sharon C. Taylor	55	Senior Vice President, Human Resources	None

Biographical information about Prudential Financial executive officers is as follows:

John R. Strangfeld, Jr. was elected Chairman of Prudential Financial in May 2008 and has served as Chief Executive Officer, President and Director since January 2008. He is a member of the Office of the Chairman and served as Vice Chairman of Prudential Financial from August 2002 to December 2007. He was Executive Vice President of Prudential Financial from February 2001 to August 2002. He served as Chief Executive Officer, Prudential Investment Management of Prudential Insurance from October 1998 until April 2002 and Chairman of the Board and CEO of Prudential Securities (renamed Prudential Equity Group, LLC) from December 2000 to April 2008. He has been with Prudential since July 1977, serving in various management positions, including Senior Managing Director, The Private Asset Management Group from 1995 to 1998; and Chairman, PRICOA Capital Group (London) Europe from 1989 to 1995.

Mark B. Grier was elected Director of Prudential Financial in January 2008 and has served as Vice Chairman since August 2002. He served as a director of Prudential Financial from December 1999 to January 2001, Executive Vice President from December 2000 to August 2002 and as Vice President of Prudential Financial from January 2000 to December 2000. He served as Chief Financial Officer of Prudential Insurance from May 1995 to June 1997. Since May 1995 he has variously served as Executive Vice President, Corporate Governance; Executive Vice President, Financial Management; Vice Chairman, Financial Management; and Vice Chairman, International. Prior to joining Prudential, Mr. Grier was an executive with Chase Manhattan Corporation.

Edward P. Baird was elected Executive Vice President of Prudential Financial and Prudential Insurance in January 2008. He served as Senior Vice President of Prudential Insurance from January 2002 to January 2008. Mr. Baird joined Prudential in 1979 and has served in various executive roles, including President of Pruco Life Insurance Company from January 1990 to December 1990; Senior Vice President for Agencies, Individual Life from January 1991 to June 1996; Senior Vice President, Prudential Healthcare from July 1996 to July 1999; Country Manager (Tokyo, Japan), International Investments Group from August 1999 to August 2002; and President of Group Insurance from August 2002 to January 2008.

Richard J. Carbone was elected Executive Vice President of Prudential Financial and Prudential Insurance in January 2008. He has served as Chief Financial Officer of Prudential Financial since December 2000 and of

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Prudential Insurance since July 1997. He has also served as Senior Vice President of Prudential Financial from November 2001 to January 2008 and Senior Vice President of Prudential Insurance from July 1997 to January 2008. Prior to that, Mr. Carbone was the Global Controller and a Managing Director of Salomon, Inc. from July 1995 to June 1997; and Controller of Bankers Trust New York Corporation and a Managing Director and Controller of Bankers Trust Company from April 1988 to March 1993; and Managing Director and Chief Administrative Officer of the Private Client Group at Bankers Trust Company from March 1993 to June 1995.

Robert C. Golden was elected Executive Vice President of Prudential Financial in February 2001 and was elected Executive Vice President, Operations and Systems of Prudential Insurance in June 1997. Previously, he served as Executive Vice President and Chief Administrative Officer for Prudential Securities.

Bernard B. Winograd was elected Executive Vice President of Prudential Financial and Prudential Insurance in January 2008. He served as Chief Executive Officer and President of Prudential Investment Management, Inc. from February 2002 to January 2008; Senior Managing Director of Prudential Private Investments from April 2000 to February 2002; and Chief Executive Officer of Prudential Real Estate Investors from December 1996 to April 2000. Prior to joining Prudential, Mr. Winograd served as Executive Vice President and Chief Financial Officer of Taubman Centers from 1992 to 1996; President of Taubman Investment Company from 1983 to 1992; Treasurer of Bendix Corporation from 1979 to 1983; Director of Public Affairs of Bendix from 1977 to 1979; and Executive Assistant to the Secretary of the U.S. Treasury in 1977.

Susan L. Blount was elected Senior Vice President and General Counsel of Prudential Financial and Prudential Insurance in May 2005. Ms. Blount has been with Prudential since 1985. She has served in various supervisory positions since 2002, including Vice President and Chief Investment Counsel and Vice President and Enterprise Finance Counsel. She served as Vice President, Secretary and Associate General Counsel from 2000 to 2002 and Vice President and Secretary from 1995 to 2000.

Helen M. Galt was elected Senior Vice President and Company Actuary of Prudential Financial in October 2005. She was named to the role of Chief Risk Officer in June 2007. Ms. Galt has been with Prudential since 1972, serving in various actuarial management positions with Prudential Insurance including Vice President and Company Actuary from 1993 to 2005 and Senior Vice President and Company Actuary, a position she currently holds.

Sharon C. Taylor was elected Senior Vice President, Human Resources for Prudential Financial in June 2002. She also serves as Senior Vice President, Human Resources for Prudential Insurance and the Chair of The Prudential Foundation. Ms. Taylor has been with Prudential since 1976, serving in various human resources and general management positions, including Vice President of Human Resources Communities of Practice, from 2000 to 2002; Vice President, Human Resources & Ethics Officer, Individual Financial Services, from 1998 to 2000; Vice President, Staffing and Employee Relations from 1996 to 1998; Management Internal Control Officer from 1994 to 1996; and Vice President, Human Resources and Administration from 1993 to 1994.

ITEM 2. PROPERTIES

We own our headquarters building located at 751 Broad Street, Newark, New Jersey, which comprises approximately 0.6 million square feet. Excluding our headquarters building and properties used by the International Insurance and Investments division and Asset Management segment, which are discussed below, we own eight and lease 11 other principal properties throughout the U.S., some of which are used for home office functions. Our domestic operations also lease approximately 220 other locations throughout the U.S.

For our International Insurance segment, we own four home offices located in Japan, Korea, Taiwan, and Brazil and lease six home offices located in Argentina, China, Italy, Mexico, India and Poland. We also own approximately 170 and lease approximately 460 other properties, primarily field offices, located throughout these same countries. For our International Investments segment, we own one head office and lease approximately 90 other properties, primarily branch offices throughout Korea, India, Taiwan, Hong Kong, Germany and the United Kingdom. For our Asset Management segment, we lease nine international principal properties located in Brazil, Mexico, Japan, Hong Kong, Singapore, Germany and the United Kingdom, in addition to approximately 10 other branch offices throughout Europe.

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We believe our properties are adequate and suitable for our business as currently conducted and are adequately maintained. The above properties do not include properties we own for investment only.

ITEM 3. LEGAL PROCEEDINGS

We are subject to legal and regulatory actions in the ordinary course of our businesses, including class action lawsuits. Our pending legal and regulatory actions include proceedings specific to us and proceedings generally applicable to business practices in the industries in which we operate, including in both cases businesses that have either been divested or placed in wind-down status. In our insurance operations, we are subject to class action lawsuits and individual lawsuits involving a variety of issues, including sales practices, underwriting practices, claims payment and procedures, additional premium charges for premiums paid on a periodic basis, denial or delay of benefits, return of premiums or excessive premium charges and breaching fiduciary duties to customers. In our investment-related operations, we are subject to litigation involving commercial disputes with counterparties or partners and class action lawsuits and other litigation alleging, among other things, that we made improper or inadequate disclosures in connection with the sale of assets and annuity and investment products or charged excessive or impermissible fees on these products, recommended unsuitable products to customers, mishandled customer accounts or breached fiduciary duties to customers. In our securities operations, we are subject to class action lawsuits, arbitrations and other actions arising out of our former retail securities brokerage, account management, underwriting, former investment banking and other activities, including claims of improper or inadequate disclosure regarding investments or charges, recommending investments or products that were unsuitable for tax advantaged accounts, assessing impermissible fees or charges, engaging in excessive or unauthorized trading, making improper underwriting allocations, breaching alleged duties to non-customer third parties and breaching fiduciary duties to customers. We may be a defendant in, or be contractually responsible to third parties for, class action lawsuits and individual litigation arising from our other operations, including claims for breach of contract. We are also subject to litigation arising out of our general business activities, such as our investments, contracts, leases and labor and employment relationships, including claims of discrimination and harassment and could be exposed to claims or litigation concerning certain business or process patents. Regulatory authorities from time to time make inquiries and conduct investigations and examinations relating particularly to us and our businesses and products. In addition, we, along with other participants in the businesses in which we engage, may be subject from time to time to investigations, examinations and inquiries, in some cases industry-wide, concerning issues or matters upon which such regulators have determined to focus. In some of our pending legal and regulatory actions, parties are seeking large and/or indeterminate amounts, including punitive or exemplary damages. The outcome of a litigation or regulatory matter, and the amount or range of potential loss at any particular time, is often inherently uncertain.

Material pending litigation and regulatory matters affecting us, and certain risks to our businesses presented by such matters, are discussed within Note 23 to the Consolidated Financial Statements included in this Annual Report on Form 10-K, under Litigation and Regulatory Matters.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders of Prudential Financial during the fourth quarter of 2009.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

General

Prudential Financial s Common Stock was issued to eligible policyholders in Prudential Insurance s demutualization and sold to investors in Prudential Financial s initial public offering. The Common Stock began trading on the New York Stock Exchange under the symbol PRU on December 13, 2001. The following table presents the high and low closing prices for the Common Stock on the New York Stock Exchange during the periods indicated and the dividends declared per share during such periods:

	High	Low	Dividends
2009:			
Fourth Quarter	$ 52.82	$ 44.64	$ 0.70
Third Quarter	54.63	33.28	
Second Quarter	46.00	20.50	
First Quarter	35.11	11.29	
2008:			
Fourth Quarter	$ 64.80	$ 13.73	$ 0.58
Third Quarter	86.25	56.07	
Second Quarter	82.21	59.74	
First Quarter	91.36	67.36	

On January 31, 2010, there were 2,372,953 registered holders of record for the Common Stock and 463 million shares outstanding.

The Class B Stock was issued to institutional investors (two subsidiaries of American International Group, Inc. and Pacific Life Corp.) in a private placement pursuant to Section 4(2) of the Securities Act of 1933 on the date of demutualization. There is no established public trading market for the Class B Stock. During the fourth quarter of 2009 and 2008, Prudential Financial paid an annual dividend of $9.625 per share of Class B Stock. On January 31, 2010, there were three holders of record for the Class B Stock and 2 million shares outstanding.

Prudential Financial s Board of Directors currently intends to continue to declare and pay annual dividends on the Common Stock and Class B Stock. Future dividend decisions will be based on, and affected by, a number of factors including the financial performance of the Financial Services Businesses and Closed Block Business; our overall financial condition, results of operations, cash requirements and future prospects; regulatory restrictions on the payment of dividends by Prudential Financial s subsidiaries; and such other factors as the Board of Directors may deem relevant. Dividends payable by Prudential Financial are limited to the amount that would be legally available for payment under New Jersey corporate law. For additional information on dividends and related regulatory restrictions, see Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources and Note 15 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

In November 2005, Prudential Financial issued in a private placement $2.0 billion of floating rate convertible senior notes, convertible by the holders at any time after issuance into cash and shares of the Company s Common Stock. The Company used substantially all of the offering proceeds to purchase an investment grade fixed income investment portfolio as well as to repurchase, under the Company s 2005 share repurchase authorization, shares of its Common Stock. In April 2007, Prudential Financial announced its intention to call all such outstanding floating rate convertible senior notes for redemption on May 21, 2007. Prior to the redemption, substantially all holders elected to convert their senior notes as provided under their terms. The senior notes required net settlement in shares; therefore, upon conversion, the holders received cash equal to the par amount of the senior notes surrendered for conversion plus accrued interest and shares of Prudential Financial Common Stock for the portion of the settlement amount in excess of the par amount. The settlement amount in excess of the par amount was based upon the excess of the closing market price of Prudential Financial

Common Stock for a 10-day period defined under the terms of the senior notes, or $100.80 per share, over the initial conversion price of $90 per share. Accordingly, at conversion the Company issued 2,367,887 shares of Common Stock from treasury. The conversion had no impact on the Company s results of operations and resulted in a net increase to shareholders equity of $44 million, reflecting the tax benefit associated with the conversion of the senior notes. The payment of principal and accrued interest was funded primarily through the liquidation of the investment grade fixed income investment portfolio purchased with the proceeds from the original issuance of these notes.

In December 2006, Prudential Financial issued in a private placement $2.0 billion of floating rate convertible senior notes, convertible by the holders at any time after issuance into cash and shares of the Company s Common Stock. The Company used the majority of the offering proceeds initially to invest in an investment grade fixed income investment portfolio, while the remainder of the proceeds were used for general corporate purposes and to repurchase shares of its Common Stock under the 2006 share repurchase authorization. On December 12, 2007, $117 million of senior notes were repurchased by Prudential Financial at the request of the holders and prior to this event we liquidated the investment portfolio. On December 12, 2008 and December 14, 2009, Prudential Financial repurchased $1.879 billion and $2 million of senior notes, respectively, at the request of the holders. As of December 31, 2009, $2 million of these notes remain outstanding.

In December 2007, Prudential Financial issued in a private placement $3.0 billion of floating rate convertible senior notes, convertible by the holders at any time after issuance into cash and shares of the Company s Common Stock. The Company initially used the majority of the offering proceeds to fund operating needs of our subsidiaries, to purchase short-term investment grade fixed income investments and for general corporate purposes, as well as to repurchase shares of its Common Stock under the 2007 share repurchase authorization. During 2008 and 2009, the Company repurchased, in individually negotiated transactions, $853 million and $297 million of senior notes, respectively, which were offered to the Company by certain holders. On June 15, 2009 and December 15, 2009, $1.819 billion and $31 million, respectively, of senior notes were repurchased by Prudential Financial at the request of the holders. As of December 31, 2009, $0.2 million of these notes remain outstanding.

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 and other adjustments.

For additional information about our convertible senior notes and exchangeable surplus notes see Note 14 to the Consolidated Financial Statements.

See Item 12 for information about our equity compensation plans.

Common Stock and Class B Stock

The Common Stock and the Class B Stock are separate classes of common stock under New Jersey corporate law.

Holders of Common Stock and Class B Stock will be entitled to dividends if and when declared by Prudential Financial s Board of Directors out of funds legally available to pay those dividends. To the extent dividends are paid on the Class B Stock, shares of Class B Stock are repurchased or the Closed Block Business has net losses, the amount legally available for dividends on the Common Stock will be reduced. In addition, payment of dividends will be subject to the following additional conditions:

Common Stock will be entitled to receive dividends, if and when declared by Prudential Financial s Board of Directors, only out of assets of the Financial Services Businesses legally available for the payment of dividends under the New Jersey Business Corporation Act as if the Financial Services Businesses were a separate New Jersey corporation; and

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Class B Stock will be entitled to receive dividends, if and when declared by Prudential Financial s Board of Directors, only out of assets of the Closed Block Business legally available for the payment of dividends under the New Jersey Business Corporation Act, as if the Closed Block Business were a separate New Jersey corporation.

Dividends declared and paid on the Common Stock will depend upon the financial performance of the Financial Services Businesses. Dividends declared and paid on the Class B Stock will depend upon the financial performance of the Closed Block Business and, as the Closed Block matures, the holders of the Class B Stock will receive the surplus of the Closed Block Business no longer required to support the Closed Block for regulatory purposes. Dividends on the Class B Stock will be payable in an aggregate amount per year at least equal to the lesser of (1) a Target Dividend Amount of $19.25 million or (2) the CB Distributable Cash Flow, as defined below in Convertibility, for such year, which is a measure of the net cash flows of the Closed Block Business. Notwithstanding this formula, as with any common stock, we will retain the flexibility to suspend dividends on the Class B Stock; however, if CB Distributable Cash Flow exists for any period and Prudential Financial chooses not to pay dividends on the Class B Stock in an aggregate amount at least equal to the lesser of the CB Distributable Cash Flow or the Target Dividend Amount for that period, then cash dividends cannot be paid on the Common Stock with respect to such period. The principal component of CB Distributable Cash Flow will be the amount by which Surplus and Related Assets, determined according to statutory accounting principles, exceed surplus that would be required for the Closed Block Business considered as a separate insurer; provided, however, that CB Distributable Cash Flow counts such excess only to the extent distributable as a dividend by Prudential Insurance under specified, but not all, provisions of New Jersey insurance law. Subject to the discretion of the Board of Directors of Prudential Financial, we currently anticipate paying dividends on the Class B Stock at the Target Dividend Amount for the foreseeable future.

The shares of Common Stock will vote together with the shares of Class B Stock on all matters (one share, one vote) except as otherwise required by law and except that holders of the Class B Stock will have class voting or consent rights with respect to specified matters directly affecting the Class B Stock.

If shares of Class B Stock are outstanding at the time of a liquidation, dissolution or winding-up of Prudential Financial, each share of Common Stock and Class B Stock will be entitled to a share of net liquidation proceeds in proportion to the respective liquidation units of such class. Each share of Common Stock will have one liquidation unit, and each share of Class B Stock will have 2.83215 liquidation units.

On December 18, 2001, Prudential Financial s shareholder rights agreement became effective. Under the shareholder rights agreement, one shareholder protection right is attached to each share of Common Stock but not to any share of Class B Stock. Each right initially entitles the holder to purchase one one-thousandth of a share of a series of Prudential Financial preferred stock upon payment of the exercise price. At the time of the demutualization, the Board of Directors of Prudential Financial determined that the initial exercise price per right is $110, subject to adjustment from time to time as provided in the shareholder rights agreement. The shareholders rights agreement will expire by its terms on December 18, 2011.

Convertibility

The Common Stock is not convertible.

Prudential Financial may, at its option, at any time, exchange all outstanding shares of Class B Stock into such number of shares of Common Stock as have an aggregate average market value (discussed below) equal to 120% of the appraised Fair Market Value (discussed below) of the outstanding shares of Class B Stock.

In addition, if (1) Prudential Financial sells or otherwise disposes of all or substantially all of the Closed Block Business or (2) a change of control of Prudential Financial occurs, Prudential Financial must exchange all outstanding shares of Class B Stock into such number of shares of Common Stock as have an aggregate average market value of 120% of the appraised Fair Market Value of such shares of Class B Stock. For this purpose, change of control means the occurrence of any of the following events (whether or not approved by the Board of Directors of Prudential Financial): (a)(i) any person(s) (as defined) (excluding Prudential Financial and specified related entities) is or becomes the beneficial owner (as defined), directly or indirectly, of more than 50% of the total voting power of the then outstanding equity securities of Prudential Financial; or (ii) Prudential Financial merges with, or consolidates with, another person or disposes of all or substantially all of its assets to any person, other than, in the case of either clause (i) or (ii), any transaction where immediately after such transaction the persons that beneficially owned immediately prior to the transaction the then outstanding voting equity securities of Prudential Financial beneficially own more than 50% of the total voting power of the then outstanding voting securities of the surviving person; or (b) during any year or any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of Prudential Financial (together with any new directors whose election by such Board of Directors or whose nomination for election by the shareholders of Prudential Financial was approved by a vote of a majority of the directors of Prudential Financial then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason, other than pursuant to (x) a proposal or request that the Board of Directors be changed as to which the holder of the Class B Stock seeking the conversion has participated or assisted or is participating or assisting or (y) retirements in the ordinary course (as defined), to constitute a majority of the Board of Directors then in office.

Holders of Class B Stock will be permitted to convert their shares of Class B Stock into such number of shares of Common Stock as have an aggregate average market value equal to 100% of the appraised Fair Market Value of the outstanding shares of Class B Stock (1) in the holder s sole discretion, in the year 2016 or at any time thereafter, and (2) at any time in the event that (a) the Class B Stock will no longer be treated as equity of Prudential Financial for federal income tax purposes or (b) the New Jersey Department of Banking and Insurance amends, alters, changes or modifies the regulation of the Closed Block, the Closed Block Business, the Class B Stock or the IHC debt in a manner that materially adversely affects the CB Distributable Cash Flow (as defined below); provided, however, that in no event may a holder of Class B Stock convert shares of Class B Stock to the extent such holder immediately upon such conversion, together with its affiliates, would be the beneficial owner, as defined under the Exchange Act, of in excess of 9.9% of the total outstanding voting power of Prudential Financial s voting securities. In the event a holder of shares of Class B Stock requests to convert shares pursuant to clause (2)(a) in the preceding sentence, Prudential Financial may elect, instead of effecting such conversion, to increase the Target Dividend Amount to $12.6875 per share per annum retroactively from the time of issuance of the Class B Stock.

CB Distributable Cash Flow means, for any quarterly or annual period, the sum of (i) the excess of (a) the Surplus and Related Assets over (b) the Required Surplus applicable to the Closed Block Business within Prudential Insurance, to the extent that Prudential Insurance is able to distribute such excess as a dividend to Prudential Holdings, LLC (PHLLC) under New Jersey law without giving effect, directly or indirectly, to the earned surplus requirement of Section 17:27A-4c.(3) of the New Jersey Insurance Holding Company Systems Law, plus (ii) any amount held by PHLLC allocated to the Closed Block Business in excess of remaining debt service payments on the IHC debt. For purposes of the foregoing, Required Surplus means the amount of surplus applicable to the Closed Block Business within Prudential Insurance that would be required to maintain a quotient (expressed as a percentage) of (i) the Total Adjusted Capital applicable to the Closed Block Business within Prudential Insurance (including any applicable dividend reserves) divided by (ii) the Company Action Level RBC applicable to the Closed Block Business within Prudential Insurance, equal to 100%, where Total Adjusted Capital and Company Action Level RBC are as defined in the regulations promulgated under the New Jersey Dynamic Capital and Surplus Act of 1993. These amounts are determined according to statutory accounting principles.

In the event of any reclassification, recapitalization or exchange of, or any tender offer or exchange offer for, the outstanding shares of Common Stock, including by merger, consolidation or other business combination, as a result of which shares of Common Stock are exchanged for or converted into another security which is both registered under the Exchange Act and publicly traded, then the Class B Stock will remain outstanding (unless exchanged by virtue of a change of control occurring or otherwise, or otherwise converted) and, in the event 50% or more of the outstanding shares of Common Stock are so exchanged or converted, holders of outstanding Class B Stock will be entitled to receive, in the event of any subsequent exchange or conversion, the securities into which the Common Stock has been exchanged or converted by virtue of such reclassification, recapitalization, merger, consolidation, tender offer, exchange offer or other business combination. If, in the event of any reclassification, recapitalization or exchange, or any tender or exchange offer for, the outstanding shares of Common Stock, including by merger, consolidation or other business combination, as a result of which a majority of the outstanding shares of Common Stock are converted into or exchanged or purchased for either cash or securities which are not public securities, or a combination thereof, the Class B Stock will be entitled to receive cash and/or securities of the type and in the proportion that such holders of Class B Stock would have received if an exchange or conversion of the Class B Stock had occurred immediately prior to the conversion, exchange or purchase of a majority of the outstanding shares of Common Stock and the holders of Class B Stock had participated as holders of Common Stock in such conversion, exchange or purchase. The amount of cash and/or securities payable upon such exchange or conversion will be calculated based upon the Fair Market Value of the Class B Stock as of the date on which the Common Stock was exchanged, converted or purchased and will be multiplied by 120%.

For purposes of all exchanges and conversions, the average market value of the Common Stock will be determined during a specified 20 trading day period preceding the time of the exchange or conversion. Fair Market Value of the Class B Stock means the fair market value of all of the outstanding shares of Class B Stock as determined by appraisal by a nationally recognized actuarial or other competent firm independent of and selected by the Board of Directors of Prudential Financial and approved by the holders of a majority of the outstanding shares of Class B Stock. Fair Market Value will be the present value of expected future cash flows to holders of the Class B Stock, reduced by any payables to the Financial Services Businesses. Future cash flows will be projected consistent with the policy, as described in the Plan of Reorganization, for the Board of Directors of Prudential Insurance to declare policyholder dividends based on actual experience in the Closed Block. Following the repayment in full of the IHC debt, these cash flows shall be the excess of statutory surplus applicable to the Closed Block Business over Required Surplus (as defined in the definition of CB Distributable Cash Flow) for each period that would be distributable as a dividend under New Jersey law if the Closed Block Business were a separate insurer. These cash flows will be discounted at an equity rate of return, to be estimated as a risk-free rate plus an equity risk premium. The risk-free rate will be an appropriate ten-year U.S. Treasury rate reported by the Federal Reserve Bank of New York. The equity risk premium will be eight and one quarter percent initially, declining evenly to four percent over the following 21 years and remaining constant thereafter. Fair Market Value will be determined by appraisal as of a specified date preceding the time of the exchange or conversion.

Any exchange or conversion of Class B Stock into Common Stock could occur at a time when either or both of the Common Stock and Class B Stock may be considered to be overvalued or undervalued. In the future, if the Class B Stock is exchanged for or converted into Common Stock, the number of shares of Common Stock then obtainable by the Class B Stockholders might constitute a higher proportion of the total shares of Common Stock then outstanding than the proportion represented by (x) the number of shares of Class B Stock initially issued divided by (y) the total number of shares of Common Stock outstanding upon completion of the demutualization. The degree of any such proportionate increase would depend principally on: the performance of the Closed Block Business over time and the valuation of the Closed Block Business at the time of exchange or conversion; whether the exchange or conversion implemented involves a premium; the number of any new shares of Common Stock we issue after the demutualization for financing, acquisition or other purposes or any repurchases of Common Stock that we may make; and the market value of our Common Stock at the time of exchange or conversion.

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Issuer Purchases of Equity Securities

The following table provides information about purchases by the Company during the three months ended December 31, 2009 of its Common Stock.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(1)	Approximate Dollar Value of Shares that May Yet be Purchased under the Program
October 1, 2009 through October 31, 2009	2,088	$ 50.06		
November 1, 2009 through November 30, 2009	2,587	$ 47.91		
December 1, 2009 through December 31, 2009	1,163	$ 50.26		
Total	5,838	$ 49.15		$

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

ITEM 6. SELECTED FINANCIAL DATA

We derived the selected consolidated income statement data for the years ended December 31, 2009, 2008 and 2007 and the selected consolidated balance sheet data as of December 31, 2009 and 2008 from our Consolidated Financial Statements included elsewhere herein. We derived the selected consolidated income statement data for the years ended December 31, 2006 and 2005 and the selected consolidated balance sheet data as of December 31, 2007, 2006 and 2005 from consolidated financial statements not included herein.

On December 31, 2009, we completed the sale of our minority joint venture interest in Wachovia Securities. In 2009, Equity in earnings of operating joint ventures, net of taxes includes a pre-tax gain on the sale of $2.247 billion. In addition, General and administrative expenses includes certain one-time costs related to the sale of the joint venture interest of $104 million for pre-tax compensation costs and costs related to increased contributions to the Company s charitable foundation. The total of these items is an after-tax gain of $1.389 billion, or $2.95 per share of Common Stock. See Note 7 to the Consolidated Financial Statements for additional information.

Results for 2009 include the results of Yamato Life, a Japanese life insurance company that declared bankruptcy in October 2008, which we acquired on May 1, 2009 and renamed The Prudential Financial of Japan Life Insurance Company Ltd.

The 2009 income tax provision includes a benefit of $272 million from a reduction to the liability for unrecognized tax benefits and related interest, 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.

On June 1, 2006, we acquired the variable annuity business of The Allstate Corporation through a reinsurance transaction. Results presented below include the results of this business from the date of acquisition.

The 2005 income tax provision includes a benefit of $720 million from reduction of tax liabilities in connection with the Internal Revenue Service examination of our tax returns for the years 1997 through 2001.

Our Gibraltar Life operations use a November 30 fiscal year end. Consolidated balance sheet data as of December 31, 2009, 2008, 2007, 2006 and 2005 includes Gibraltar Life assets and liabilities as of November 30. Consolidated income statement data for 2009, 2008, 2007, 2006 and 2005 includes Gibraltar Life results for the twelve months ended November 30, 2009, 2008, 2007, 2006 and 2005, respectively.

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This selected consolidated financial information should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the Consolidated Financial Statements included elsewhere herein.

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(in millions, except per share and ratio information)				
Income Statement Data:					
Revenues:					
Premiums	$ 16,545	$ 15,468	$ 14,351	$ 13,908	$ 13,756
Policy charges and fee income	2,833	3,138	3,131	2,653	2,520
Net investment income	11,421	11,881	12,015	11,320	10,595
Asset management fees and other income	4,785	1,131	4,267	3,594	3,081
Realized investment gains (losses), net	(2,896)	(2,399)	613	774	1,378
Total revenues	32,688	29,219	34,377	32,249	31,330
Benefits and expenses:					
Policyholders benefits	16,346	16,531	14,749	14,283	13,883
Interest credited to policyholders account balances	4,484	2,335	3,222	2,917	2,699
Dividends to policyholders	1,298	2,218	2,903	2,622	2,850
General and administrative expenses	8,991	9,274	8,820	8,065	7,612
Total benefits and expenses	31,119	30,358	29,694	27,887	27,044
Income (loss) from continuing operations before income taxes, equity in earnings of operating joint ventures, extraordinary gain on acquisition and cumulative effect of accounting change	1,569	(1,139)	4,683	4,362	4,286
Income tax expense (benefit)	21	(487)	1,220	1,224	801
Income (loss) from continuing operations before equity in earnings of operating joint ventures, extraordinary gain on acquisition and cumulative effect of accounting change	1,548	(652)	3,463	3,138	3,485
Equity in earnings of operating joint ventures, net of taxes	1,523	(447)	246	208	142
Income (loss) from continuing operations before extraordinary gain on acquisition and cumulative effect of accounting change	3,071	(1,099)	3,709	3,346	3,627
Income (loss) from discontinued operations, net of taxes	19	18	20	71	(71)
Net income (loss)	3,090	(1,081)	3,729	3,417	3,556
Less: Income (loss) attributable to noncontrolling interests	(34)	36	67	25	21
Net Income (loss) attributable to Prudential Financial, Inc.	$ 3,124	$ (1,117)	$ 3,662	$ 3,392	$ 3,535
Basic income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Common Stock	$ 7.64	$ (2.57)	$ 7.57	$ 6.36	$ 6.52
Diluted income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Common Stock	$ 7.59	$ (2.57)	$ 7.47	$ 6.27	$ 6.44
Basic net income (loss) attributable to Prudential Financial, Inc. per share Common Stock	$ 7.68	$ (2.53)	$ 7.61	$ 6.50	$ 6.38
Diluted net income (loss) attributable to Prudential Financial, Inc. per share Common Stock	$ 7.63	$ (2.53)	$ 7.51	$ 6.41	$ 6.30
	$ (165.00)	$ (16.00)	$ 68.50	$ 108.00	$ 119.50

Basic and diluted income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Class B Stock					
Basic and diluted net income (loss) attributable to Prudential Financial, Inc. per share Class B Stock	$ (165.00)	$ (16.00)	$ 69.50	$ 108.00	$ 119.50
Dividends declared per share Common Stock	$ 0.70	$ 0.58	$ 1.15	$ 0.95	$ 0.78
Dividends declared per share Class B Stock	$ 9.625	$ 9.625	$ 9.625	$ 9.625	$ 9.625
Ratio of earnings to fixed charges(1)	1.72		2.03	2.09	2.18

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	As of December 31,				
	2009	2008	2007	2006	2005
			(in millions)		
Balance Sheet Data:					
Total investments excluding policy loans	$ 250,406	$ 232,322	$ 234,220	$ 226,737	$ 213,031
Separate account assets	174,074	147,095	195,583	177,463	153,159
Total assets	480,203	445,011	485,813	454,266	413,373
Future policy benefits and policyholders account balances	227,373	221,564	195,731	187,652	177,572
Separate account liabilities	174,074	147,095	195,583	177,463	153,159
Short-term debt	3,122	10,535	15,566	12,472	11,040
Long-term debt	21,037	20,290	14,101	11,423	8,270
Total liabilities	454,474	431,225	461,890	431,005	390,454
Prudential Financial, Inc. equity(2)	25,195	13,435	23,514	22,932	22,809
Noncontrolling interests	534	351	409	329	110
Total equity(2)	$ 25,729	$ 13,786	$ 23,923	$ 23,261	$ 22,919

(1) For purposes of this computation, earnings are defined as income from continuing operations before income taxes excluding undistributed income (loss) from equity method investments, fixed charges and interest capitalized. Also excludes earnings attributable to noncontrolling interests. Fixed charges are the sum of gross interest expense, interest credited to policyholders account balances and an estimated interest component of rent expense. Due to the Company s loss for the year ended December 31, 2008, the ratio coverage was less than 1:1 and is therefore not presented. Additional earnings of $772 million would have been required for the year ended December 31, 2008 to achieve a ratio of 1:1.

(2) The Company adopted the authoritative guidance for employers accounting for defined benefit pension and other postretirement plans effective December 31, 2006, which amended previous guidance, and resulted in a reduction of Prudential Financial, Inc. equity of $556 million upon adoption.

ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following analysis of our consolidated financial condition and results of operations in conjunction with the Forward-Looking Statements included below the Table of Contents, Risk Factors, Selected Financial Data and the Consolidated Financial Statements included in this Annual Report on Form 10-K.

Overview

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

Financial Services Businesses

Our Financial Services Businesses consist of three operating divisions, which together encompass seven segments, and our Corporate and Other operations. The U.S. Retirement Solutions and Investment Management division consists of our Individual Annuities, Retirement and Asset Management segments. The U.S. Individual Life and Group Insurance division consists of our Individual Life and Group Insurance segments. The International Insurance and Investments division consists of our International Insurance and International Investments segments. Our Corporate and Other operations include our real estate and relocation services business, as well as corporate items and initiatives that are not allocated to business segments. Corporate and Other operations also include businesses that have been or will be divested, including our investment in the Wachovia Securities joint venture which we sold on December 31, 2009, and businesses that we have placed in wind-down status.

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

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

Closed Block Business

In connection with the demutualization, we ceased offering domestic participating products. The liabilities for our traditional domestic in force participating products were segregated, together with assets, in a regulatory mechanism referred to as the Closed Block. The Closed Block is designed generally to provide for the reasonable expectations for future policy dividends after demutualization of holders of participating individual life insurance policies and annuities included in the Closed Block by allocating assets that will be used exclusively for payment of benefits, including policyholder dividends, expenses and taxes with respect to these products. See Note 12 to the Consolidated Financial Statements for more information on the Closed Block. At the time of demutualization, we determined the amount of Closed Block assets so that the Closed Block assets initially had a lower book value than the Closed Block liabilities. We expect that the Closed Block assets will generate sufficient cash flow, together with anticipated revenues from the Closed Block policies, over the life of the Closed Block to fund payments of all expenses, taxes, and policyholder benefits to be paid to, and the reasonable dividend expectations of, holders of the Closed Block policies. We also segregated for accounting purposes the assets that we need to hold outside the Closed Block to meet capital requirements related to the Closed Block policies. No policies sold after demutualization will be added to the Closed Block, and its in force business is expected to ultimately decline as we pay policyholder benefits in full. We also expect the proportion of our business represented by the Closed Block to decline as we grow other businesses.

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

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

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

Revenues and Expenses

We earn our revenues principally from insurance premiums; mortality, expense, and asset management and administrative fees from insurance and investment products; and investment of general account and other funds. We earn premiums primarily from the sale of individual life insurance and group life and disability insurance. We earn mortality, expense, and asset management fees from the sale and servicing of separate account products including variable life insurance and variable annuities. We also earn asset management and administrative fees from the distribution, servicing and management of mutual funds, retirement products and other asset management products and services. Our operating expenses principally consist of insurance benefits provided, general business expenses, dividends to policyholders, commissions and other costs of selling and servicing the various products we sell and interest credited on general account liabilities.

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Profitability

Our profitability depends principally on our ability to price and manage risk on insurance products, our ability to attract and retain customer assets and our ability to manage expenses. Specific drivers of our profitability include:

- our ability to manufacture and distribute products and services and to introduce new products that gain market acceptance on a timely basis;
- our ability to price our insurance products at a level that enables us to earn a margin over the cost of providing benefits and the expense of acquiring customers and administering those products;
- our mortality and morbidity experience on individual and group life insurance, annuity and group disability insurance products, which can fluctuate significantly from period to period;
- our persistency experience, which affects our ability to recover the cost of acquiring new business over the lives of the contracts;
- our cost of administering insurance contracts and providing asset management products and services;
- our ability to manage and control our operating expenses, including overhead expenses;
- our returns on invested assets, including the impact of credit losses, net of the amounts we credit to policyholders accounts;
- the amount of our assets under management and changes in their fair value, which affect the amount of asset management fees we receive;
- our ability to generate favorable investment results through asset/liability management and strategic and tactical asset allocation;
- our credit and financial strength ratings;
- our ability to effectively utilize our tax capacity;
- our returns on proprietary investments we make; and
- our ability to manage risk and exposures, including the degree to which, and the effectiveness of, hedging these risks and exposures.

In addition, factors such as credit and real estate market conditions, regulation, competition, interest rates, taxes, foreign exchange rates, market fluctuations and general economic, market and political conditions affect our profitability. In some of our product lines, particularly those in the

Closed Block Business, we share experience on mortality, morbidity, persistency and investment results with our customers, which can offset the impact of these factors on our profitability from those products.

Historically, the participating products included in the Closed Block have yielded lower returns on capital invested than many of our other businesses. As we have ceased offering domestic participating products, we expect that the proportion of the traditional participating products in our in force business will gradually diminish as these older policies age, and we grow other businesses. However, the relatively lower returns to us on this existing block of business will continue to affect our consolidated results of operations for many years. Our Common Stock reflects the performance of our Financial Services Businesses, but there can be no assurance that the market value of the Common Stock will reflect solely the performance of these businesses.

See Risk Factors for a discussion of risks that have affected and may affect in the future our business, results of operations or financial condition, cause the trading price of our Common Stock to decline materially or cause our actual results to differ materially from those expected or those expressed in any forward looking statements made by or on behalf of the Company.

Executive Summary

Prudential Financial, a financial services leader with approximately $667 billion of assets under management as of December 31, 2009, has operations in the United States, Asia, Europe and Latin America.

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Through our subsidiaries and affiliates, we offer a wide array of financial products and services, including life insurance, annuities, retirement-related services, mutual funds, investment management, and real estate services. We offer these products and services to individual and institutional customers through one of the largest distribution networks in the financial services industry.

Current Developments

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

Certain markets have shown marked improvement since mid-2009. Equity markets have appreciated, with less volatility, and bond spreads have tightened significantly. We took advantage of the improving market conditions, and raised approximately $4.4 billion in the capital markets during 2009 through the following:

- Issued 36.9 million shares of Prudential Financial Common Stock in a public offering (at a price of $39.00 per share) for net proceeds of $1.391 billion.
- Issued $2.5 billion of Prudential Financial medium-term notes. In January 2010, we issued an additional $1.250 billion of Prudential Financial medium-term notes.
- Issued $500 million of Prudential Insurance surplus notes, exchangeable for Prudential Financial Common Stock.

On December 31, 2009, we received $4.5 billion of proceeds in cash from Wells Fargo upon the completion of the sale of our minority joint venture interest in Wachovia Securities. In addition, we received $418 million in payment of the principal of and accrued interest on the subordinated promissory note in the principal amount of $417 million that had been issued by Wachovia Securities in connection with the establishment of the joint venture.

As the dislocation in the markets continued, we took certain other actions during 2009 to strengthen our liquidity and capital position, including the following:

- Made capital contributions and capital loans to our international insurance operations in Japan totaling $366 million.
- Borrowed $1.5 billion in the form of collateralized funding agreements from the Federal Home Loan Bank of New York, or FHLBNY, which was subsequently used to replace inter-company funding agreements between Prudential Insurance and Prudential Financial, previously funded through proceeds from the sale of Prudential Financial s retail medium-term notes, making the corresponding proceeds available for general corporate purposes.

Reduced exposure to short-term financing markets, primarily through reduction in commercial paper borrowings.

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

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

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

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

Our financial condition and results of operations for the year ended December 31, 2009 reflect the following:

- Net income of our Financial Services Businesses attributable to Prudential Financial, Inc. for the year ended December 31, 2009 was $3.411 billion, reflecting a $1.457 billion after tax gain from the sale of our minority joint venture interest in Wachovia Securities, as well as the positive impact of improved financial market conditions beginning in late second quarter of 2009.

- Pre-tax net realized investment losses and related adjustments of the Financial Services Businesses in 2009 were $1.651 billion, primarily reflecting other-than-temporary impairments of fixed maturity and equity securities of $1.563 billion.

- Net unrealized gains on general account fixed maturity investments of the Financial Services Businesses amounted to $998 million as of December 31, 2009, compared to net unrealized losses of $6.567 billion as of December 31, 2008. Gross unrealized gains increased from $4.684 billion as of December 31, 2008 to $5.387 billion as of December 31, 2009 and gross unrealized losses decreased from $11.251 billion to $4.389 billion for the same periods as credit spreads tightened across most asset classes, partially offset by an increase in risk-free rates. Net unrealized gains on general account fixed maturity investments of the Closed Block Business amounted to $7 million as of December 31, 2009, compared to net unrealized losses of $4.035 billion as of December 31, 2008.

- Individual Annuity gross sales in 2009 reached a record high of $16.3 billion, an increase from $10.3 billion in the prior year. Individual Annuity net sales in 2009 were $10.3 billion, an increase from $2.1 billion in the prior year.

- Full Service Retirement gross deposits and sales were $23.2 billion and net additions were $8.8 billion in 2009, an increase from gross deposits and sales of $18.9 billion and net additions of $3.9 billion in the prior year.

- We also continued to have positive net flows in our asset management business, as well as solid sales in our domestic and international insurance businesses, in 2009.

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

- As of December 31, 2009, Prudential Financial, the parent holding company, had cash and short-term investments of $3.830 billion.

On November 10, 2009, Prudential Financial declared an annual dividend for 2009 of $0.70 per share of Common Stock, reflecting an increase of approximately 21% from the 2008 Common Stock dividend.

Outlook

Management expects that the recovery of the economy and global markets will remain challenging in 2010 but that results will reflect the quality of our individual businesses and their prospects, as well as our overall business mix. In 2010, we continue to focus on long-term strategic positioning and growth opportunities, including the following:

U.S. Retirement and Investment Management Market. We look to capitalize on the growing need of baby boomers for products that provide guaranteed income for longer retirement periods. In addition, we continue to focus on our clients increasing needs for retirement income security given the recent volatility in the financial markets. We also look to provide products that respond to the needs of plan sponsors to manage risk and stretch their benefit dollars.

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U.S. Insurance Market. We continue to focus on writing high-quality business and expect to continue to benefit from expansion of our distribution channels and deepening our relationships with third-party distributors. We also look to capitalize on opportunities for additional optional life purchases in the group insurance market, as institutional clients are focused on stretching their benefit dollars.

International Markets. We continue to concentrate on deepening our presence in the markets in which we currently operate, such as Japan, and expanding our distribution channels. We look to capitalize on opportunities arising in international markets as changing demographics and public policy have resulted in a growing demand for retirement income products similar to those offered in the U.S.

Results of Operations

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

Shown below are the contributions of each segment and Corporate and Other operations to our adjusted operating income for the years ended December 31, 2009, 2008 and 2007 and a reconciliation of adjusted operating income of our segments and Corporate and Other operations to income from continuing operations before income taxes and equity in earnings of operating joint ventures.

	Year ended December 31,		
	2009	2008	2007
		(in millions)	
Adjusted operating income before income taxes for segments of the Financial Services Businesses:			
Individual Annuities	$ 703	$ (1,077)	$ 722
Retirement	510	531	482
Asset Management	55	232	701
Individual Life	562	446	622
Group Insurance	331	340	286
International Insurance	1,843	1,747	1,598
International Investments	43	(332)	256
Corporate and Other	(728)	(397)	(132)
Reconciling Items:			
Realized investment gains (losses), net, and related adjustments	(1,651)	(2,267)	(41)
Charges related to realized investment gains (losses), net	(88)	45	(52)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	1,601	(1,734)	
Change in experience-rated contractholder liabilities due to asset value changes	(899)	1,163	13
Divested businesses	2,131	(506)	274
Equity in earnings of operating joint ventures	(2,364)	654	(336)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	2,049	(1,155)	4,393
Income from continuing operations before income taxes for Closed Block Business	(480)	16	290
Consolidated income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 1,569	$ (1,139)	$ 4,683

Results for 2009 presented above reflect the following:

Individual Annuities segment results for 2009 increased in comparison to 2008 primarily reflecting the impact of improved market conditions. Included in the increase was a favorable variance of $1,713 million related to adjustments to the amortization of deferred policy acquisition and other costs and the reserves for the guaranteed minimum death and income benefit features of our variable annuity products, largely reflecting improved financial market conditions in 2009. The increase also included a $974 million favorable variance related to the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features, including changes in our market-perceived non-performance risk. This variance resulted in a corresponding $661 million increase in the amortization

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of deferred policy acquisition and other costs. These favorable variances were partially offset by mark-to-market losses of $180 million in 2009 related to derivative positions associated with our capital hedging program, which we began in the second quarter of 2009. Results were also favorably impacted by an increase in investment results, driven by higher average annuity account values in investments backed by our general account, partially offset by a decrease in fee income, due to transfers of separate account funds to fixed income investments backed by our general account relating to our automatic rebalancing element.

Retirement segment results for both 2009 and 2008 include the impact of our annual review of the assumptions and other cumulative adjustments relating to the amortization of deferred policy acquisition costs and valuation of business acquired. Absent the $39 million unfavorable impact of these items, results for 2009 increased $18 million in comparison to 2008, primarily driven by improved investment results in our full service and institutional investments products businesses, as well as a favorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with guaranteed minimum withdrawal benefits associated with certain defined contribution accounts. A lower benefit from reserve refinements, primarily related to updates of client census data on our group annuity blocks of business, and a decline in asset based fees in our full service business were partial offsets.

Asset Management segment results declined in 2009 largely due to unfavorable results from the segment s commercial mortgage activities reflecting higher credit and valuation-related charges on interim loans, as well as lower transaction and performance based incentive fees, and asset management fees. These items were partially offset by a reduction in losses from the segment s proprietary investing activities.

Individual Life segment results for 2009 improved from 2008, primarily reflecting lower amortization of deferred policy acquisition costs, net of related amortization of unearned revenue reserves, to reflect the impact of changes to the estimate of total gross profits primarily due to favorable variable product separate account fund performance in 2009 and unfavorable performance in 2008, as well as a lower than expected level of death claim costs in 2009. Results for both periods also benefited from reductions in amortization of net deferred policy acquisition costs and unearned revenue reserves reflecting updates of our actuarial assumptions based on annual reviews. The benefit in 2009 was $55 million, which included an increase in reserves for the guaranteed minimum death benefit feature in certain contracts. The comparable benefit for 2008 was $79 million. Results for both periods also benefited from compensation received based on multi-year profitability of third-party products we distribute, which benefited the current year $30 million and the prior year $53 million.

Group Insurance segment results declined in 2009, reflecting the prior year benefits of a premium adjustment for updated data on a large case and annual reserve refinements. Excluding these benefits in the prior year, the segment results for 2009 improved from 2008, primarily reflecting growth in both our group life and group disability businesses.

International Insurance segment results for 2009 improved from 2008. Results from the segment s Life Planner operations improved in 2009, reflecting the continued growth of our Japanese Life Planner operations and more favorable mortality experience. Results from the segment s Gibraltar Life operation were unchanged from 2009 to 2008. Results in 2009 include $36 million of earnings from the acquired former business of Yamato Life. The earnings from the acquired business include approximately $19 million largely related to initial surrenders of policies following the restructuring of the business, essentially consistent with our overall expectations. Results for 2009 for the Gibraltar Life operations also reflect higher general and administrative expenses including costs of an ongoing technology improvement program.

International Investments segment results for 2009 improved from 2008 primarily due to impairment charges of $426 million in 2008 related to operating joint ventures and goodwill, partially offset by less favorable results from the segment s global commodities group.

Corporate and Other operations resulted in an increased loss for 2009 as compared to 2008 primarily due to lower investment income, net of interest expense, reflecting the initial investment of debt issuance proceeds in cash and short-term investments, as well as increased interest expense on capital debt. In addition, 2009 results reflect a higher level of expenses. The inclusion of a charge in 2008 for goodwill impairment of $117 million associated with our real estate and relocation services business was a partial offset.

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Realized investment gains (losses), net, and related adjustments for the Financial Services Businesses in 2009 amounted to a loss of $1.651 billion, primarily reflecting other-than-temporary impairments of fixed maturity and equity securities of $1.563 billion.

Income (loss) from continuing operations before income taxes in the Closed Block Business decreased $496 million in 2009 compared to 2008, primarily reflecting net realized investment losses in 2009, compared to gains in 2008, as well as a decrease in net investment income, which were partially offset by a decrease in dividends to policyholders, including the decrease in the cumulative earnings policyholder dividend obligation expense.

Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

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

The following sections discuss the accounting policies applied in preparing our financial statements that management believes are most dependent on the application of estimates and assumptions.

Deferred Policy Acquisition Costs

We capitalize costs that vary with and are related primarily to the acquisition of new and renewal insurance and annuity contracts. These costs primarily include commissions, costs of policy issuance and underwriting, and variable field office expenses that are incurred in producing new business. We amortize these deferred policy acquisition costs, or DAC, over the expected lives of the contracts, based on our estimates of the level and timing of gross margins, gross profits, or gross premiums, depending on the type of contract. As described in more detail below, in calculating DAC amortization we are required to make assumptions about investment returns, mortality and other items that impact our estimates of the level and timing of gross margins, gross profits, or gross premiums. As of December 31, 2009, DAC in our Financial Services Businesses was $13.751 billion and DAC in our Closed Block Business was $827 million.

DAC associated with the traditional participating products of our Closed Block Business is amortized over the expected lives of those contracts in proportion to estimated gross margins. Gross margins consider premiums, investment returns, benefit claims, costs for policy administration, changes in reserves, and dividends to policyholders. We evaluate our estimates of future gross margins and adjust the related DAC balance with a corresponding charge or credit to current period earnings for the effects of actual gross margins and changes in our expected future gross margins. We also ensure the recoverability of the DAC balance at the end of each reporting period. Many of the factors that affect gross margins are included in the determination of our dividends to these policyholders. In recent years, DAC adjustments generally have not created significant volatility in our results of operations since the Closed Block had recognized a cumulative policyholder dividend obligation expense in Policyholders dividends, for the excess of actual cumulative earnings over expected cumulative earnings as determined at the time of demutualization. However, as of December 31, 2009, actual cumulative earnings are below expected cumulative earnings by $601 million, thereby eliminating the cumulative policyholder dividend obligation expense. Without the benefit of the cumulative earnings policyholder dividend obligation, changes in gross margins and DAC amortization could result in greater volatility in our results of operations.

DAC associated with the non-participating whole life and term life policies of our Individual Life segment and the non-participating whole life, term life, endowment and health policies of our International Insurance segment is amortized in proportion to gross premiums. We evaluate the recoverability of our DAC related to these policies as part of our premium deficiency testing. If a premium deficiency exists, we reduce DAC by the amount of the deficiency or to zero through a charge to current period earnings. If the deficiency is more than the

DAC balance, we then increase the reserve for future policy benefits by the excess, by means of a charge to current period earnings. Generally, we do not expect significant deterioration in future experience, and therefore do not expect significant writedowns to the related DAC.

DAC associated with the variable and universal life policies of our Individual Life and International Insurance segments and the variable and fixed annuity contracts of our Individual Annuities and International Insurance segments is amortized over the expected life of these policies in proportion to gross profits. In calculating gross profits, we consider mortality, persistency, and other elements as well as rates of return on investments associated with these contracts and the cost of contract minimum guarantees net of, where applicable, the impact of our own risk of non-performance and certain hedging activities related to these guarantees. The impact of our capital hedging program, which we began in the second quarter of 2009, is not considered in calculating gross profits. We regularly evaluate and adjust the related DAC balance with a corresponding charge or credit to current period earnings for the effects of our actual gross profits and changes in our assumptions regarding estimated future gross profits. Adjustments to the DAC balance include our quarterly adjustments for current period experience and market performance related adjustments, as discussed below, and the impact of the annual reviews of our estimate of total gross profits. We also perform recoverability testing at the end of each reporting period to ensure the DAC balance does not exceed the present value of estimated gross profits.

The quarterly adjustments for current period experience referred to above reflect the impact of differences between actual gross profits for a given period and the previously estimated expected gross profits for that period. Total estimated gross profits include both actual experience and estimates of gross profits for future periods. To the extent each period s actual experience differs from the previous estimate for that period, the assumed level of total gross profits may change. In these cases, we recognize a cumulative adjustment to all previous periods costs, referred to as an adjustment for current period experience.

For the variable and universal life policies of our Individual Life segment, a significant portion of our gross profits is derived from mortality margins. As a result, our estimates of future gross profits are significantly influenced by our mortality assumptions. Our mortality assumptions represent our expected claims experience over the life of these policies and are developed based on Company experience. We review and update our mortality assumptions annually. Updates to our mortality assumptions in future periods could have a significant adverse or favorable effect on the results of our operations in the Individual Life segment. For the variable and universal life policies in our International Insurance segment, mortality assumptions impact to a lesser extent our estimates of future gross profits due to differences in policyholder demographics, the overall age of this block of business, the amount of mortality margins and our actual mortality experience.

The DAC balance associated with the variable and universal life policies of our Individual Life segment as of December 31, 2009 was $2.8 billion. The following table provides a demonstration of the sensitivity of that DAC balance relative to our future mortality assumptions by quantifying the adjustments that would be required, assuming both an increase and decrease in our future mortality rate by 1%. While the information below is for illustrative purposes only and does not reflect our expectations regarding future mortality assumptions, it is a near-term, reasonably likely hypothetical change that illustrates the potential impact of such a change. This information considers only the direct effect of changes in our mortality assumptions on the DAC balance and not changes in any other assumptions such as persistency, future rate of return, or expenses included in our evaluation of DAC, and does not reflect changes in reserves, such as the unearned revenue reserve, which would partially offset the adjustments to the DAC balance reflected below.

	December 31, 2009 Increase/(Reduction) in DAC (in millions)
Decrease in future mortality by 1%	$ 40
Increase in future mortality by 1%	$ (40)

For a discussion of DAC adjustments related to our Individual Life segment for the years ended December 31, 2009, 2008 and 2007, see Results of Operations for Financial Services Businesses by Segment U.S. Individual Life and Group Insurance Division Individual Life.

For variable annuity contracts, DAC is more sensitive to the effects of changes in our estimates of gross profits due primarily to the significant portion of our gross profits that is dependent upon the total rate of return

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on assets held in separate account investment options, and the shorter average life of the contracts. This rate of return influences the fees we earn, costs we incur associated with the guaranteed minimum death and optional living benefit features related to our variable annuity contracts, as well as other sources of profit. This is also true, to a lesser degree, for our variable life policies. Returns that are higher than our expectations for a given period produce higher than expected account balances, which increase the fees we earn and decrease the costs we incur associated with the guaranteed minimum death and optional living benefit features related to our variable annuity contracts, resulting in higher expected future gross profits and lower DAC amortization for the period. The opposite occurs when returns are lower than our expectations.

The near-term future rate of return assumptions used in evaluating DAC for our domestic variable annuity and variable life insurance products are derived using a reversion to the mean approach, a common industry practice. Under this approach, we consider actual returns over a period of time and initially adjust future projected returns over a four year period so that the assets grow at the long-term expected rate of return for the entire period. If the projected future rate of return over the four year period is greater than our maximum future rate of return, we use our maximum future rate of return. As of December 31, 2009, our long-term expected rates of return across all asset types for variable annuities products and variable life policies range from 7.7% to 8.1% per annum, depending on the specific block of business, and reflect, among other assumptions, an expected rate of return of 9.5% per annum for equity type assets. Unless there is a sustained interim deviation, our long-term expected rate of return assumptions generally are not impacted by short-term market fluctuations. As of December 31, 2009, our near-term maximum future rate of return under the reversion to the mean approach for variable annuities products and variable life policies was 9.7% and 10.1% per annum, respectively. Included in this blended maximum future rate are assumptions for returns on various asset classes, including a 13% per annum maximum rate of return on equity investments.

In the fourth quarter of 2008 we determined that adjustments to our estimate of total gross profits to reflect actual fund performance and any corresponding changes to the projected future rate of return assumptions for our variable annuity contracts should no longer be dependent on a comparison to a statistically generated range of estimated gross profits. Instead, beginning in the fourth quarter of 2008, the projected future rate of return and our estimate of total gross profits are updated each quarter to reflect the result of the reversion to the mean approach. These market performance related adjustments to our estimate of total gross profits result in cumulative adjustments to prior amortization, reflecting the application of the new required rate of amortization to all prior periods gross profits. The new required rate of amortization is also applied prospectively to future gross profits in calculating amortization in future periods. For variable annuities products and variable life policies, as of December 31, 2009, our expected rate of return for the next four years across all asset types is 8.0% and 10.1% per annum, respectively. These rates represent a weighted average of our expected rates of return across all contract groups. For most contract groups, our expected rate of return for the next four years equals our current maximum future rates of return, as the near-term projected future rate of return under the reversion to the mean approach is greater than our maximum future rate of return. For certain contract groups relating to variable annuities issued in 2009, the expected rate of return over the next four years is under 8.0% per annum, reflecting the impact of more favorable markets in 2009 and the reversion to the mean approach.

The DAC balance associated with our domestic variable annuity contracts was $2.4 billion as of December 31, 2009. The following table provides a demonstration of the sensitivity of that DAC balance relative to our future rate of return assumptions by quantifying the adjustments to the DAC balance that would be required assuming both an increase and decrease in our future rate of return by 100 basis points. The sensitivity includes an increase and decrease of 100 basis points to both the near-term future rate of return assumptions used over the next four years, and the long-term expected rate of return used thereafter. While the information below is for illustrative purposes only and does not reflect our expectations regarding future rate of return assumptions, it is a near-term, reasonably likely hypothetical change that illustrates the potential impact of such a change. This information considers only the direct effect of changes in our future rate of return on the DAC balance and not changes in any other assumptions such as persistency, mortality, or expenses included in our evaluation of DAC. Further, this information does not reflect changes in reserves, such as the reserves for the guaranteed minimum death and optional living benefit features of our variable annuity products, or the impact that changes in such reserves may have on the DAC balance.

	December 31, 2009 Increase/(Reduction) in DAC (in millions)
Decrease in future rate of return by 100 basis points	$ (44)
Increase in future rate of return by 100 basis points	$ 43

For a discussion of DAC adjustments related to our Individual Annuities segment for the years ended December 31, 2009, 2008 and 2007, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

Deferred Sales Inducements and Valuation of Business Acquired

In addition to DAC, we also recognize assets for deferred sales inducements and valuation of business acquired, or VOBA. The deferred sales inducements are recognized primarily in our Individual Annuities segment and are amortized over the anticipated life of the policy using the same methodology and assumptions used to amortize deferred policy acquisition costs. For additional information about our deferred sales inducements, see Note 11 to the Consolidated Financial Statements. VOBA represents the present value of future profits embedded in acquired businesses, and is determined by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. We have established a VOBA asset primarily for our acquired traditional life, deferred annuity, defined contribution and defined benefit businesses. VOBA is amortized over the effective life of the acquired contracts. For additional information about VOBA including details on items included in our estimates of future cash flows for the various acquired businesses and its bases for amortization, see Note 2 to the Consolidated Financial Statements. Deferred sales inducements and VOBA are also subject to recoverability testing at the end of each reporting period to ensure that the capitalized amounts do not exceed the present value of anticipated gross profits. Based on this recoverability testing, in 2009 we impaired the entire remaining VOBA asset related to the variable annuity contracts acquired from Allstate. For additional information regarding this charge, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

Goodwill

We test goodwill for impairment on an annual basis as of December 31 of each year and more frequently if events occur or circumstances change that would indicate the potential for impairment is more likely than not. The test is performed at the reporting unit level which is equal to or one level below our operating segments. Reporting units that had goodwill subject to testing as of December 31, 2009 were the Asset Management segment, the International Insurance segment s Life Planners business and the Retirement segment s Full Service business.

As required by accounting guidance, the impairment testing process consists of two steps. Step 1 requires that the fair value of the reporting unit be calculated and compared to the reporting unit s carrying value. If the fair value is greater than the carrying value, it is concluded there is no impairment and the analysis is complete. If the fair value is less than the carrying value, Step 2 of the process is completed to determine the amount of impairment, if any.

Step 2 utilizes business combination purchase accounting guidance and requires the fair value calculation of all individual assets and liabilities of the reporting unit (excluding goodwill, but including any unrecognized intangible assets). The net fair value of assets less liabilities is then compared to the reporting unit s total fair value as calculated in Step 1. The excess of fair value over the net asset value equals the implied fair value of goodwill. The implied fair value of goodwill is then compared to the carrying value of goodwill to determine the reporting unit s goodwill impairment loss, if any.

The fair value of reporting units calculated in Step 1 was determined using either an earnings multiple approach or a discounted cash flow approach. The earnings multiple approach was the primary approach for the Asset Management and International Insurance reporting units, the discounted cash flow approach was primarily utilized by the Retirement reporting unit. Earnings multiples used ranged from 8.6 to 15.0 times earnings while the discount rate used was 12%.

The earnings multiple approach indicates the value of a business based on comparison to publicly-traded comparable companies in similar lines of business. Each comparable company is analyzed based on various factors, including, but not limited to, financial risk, size, geographic diversification, profitability, adequate financial data, and an actively traded stock price. A multiple of price to earnings is developed for the comparable

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companies using independent analysts consensus estimates for each company s 2010 forecasted earnings. The multiple is then applied to the 2010 forecasted earnings of the reporting unit to develop a value. A control premium is then added to determine a total estimated fair value for the reporting unit.

The discounted cash flow approach calculates the value of a business by applying a discount rate reflecting the market expected weighted average rate of return to the projected future cash flows of the reporting unit. The weighted average rate of return, or WARR, represents the required rate of return on total capitalization. It is comprised of a required rate of return on equity of a company and the current tax-affected cost of debt, which are then weighted by the relative percentages of equity and debt in the capital structure. To estimate the return on equity, we applied the Capital Asset Pricing Model, or CAPM. The CAPM is a generally accepted method for estimating an equity investor s return requirement, and hence a company s cost of equity capital. CAPM is determined by beginning with the long-term risk free rate of return then applying adjustments that consider the equity risk premium required for large company common stock investments as well as company specific adjustments to address volatility, small company premiums and other risks particular to a specific company. The WARR calculation is applied to a group of companies considered peers of the reporting unit to develop a weighted average rate of return for the peer group which is then used to estimate the market expected weighted average rate of return for the reporting unit.

After completion of Step 1 of the analysis, it was determined that fair value exceeded the carrying value for each of the three reporting units and it was concluded there was no impairment as of December 31, 2009. The Asset Management and International Insurance Life Planner businesses had estimated fair values that exceeded their December 31, 2009 carrying values by 448% and 74%, respectively. The fair value of the Retirement Full Service business, which was calculated based upon application of the discounted cash flow approach utilizing a discount rate of 12%, exceeded the carrying value by 18%. A decline in forecasted cash flows of 15%, or an increase in the discount rate above 13.7%, could result in the Retirement business failing Step 1 and requiring a Step 2 assessment. As of December 31, 2009, we had a total goodwill balance of $709 million, including $444 million related to our Retirement reporting unit, $242 million related to our Asset Management reporting unit, and $23 million related to our International Insurance reporting unit. Further market declines or other events impacting the fair value of these businesses, or increases in the level of equity required to support these businesses, could result in goodwill impairments, resulting in a charge to income.

During the first quarter of 2009, we concluded that due to the severe economic conditions, a triggering event existed in our Retirement segment. The Company evaluated the goodwill of the Retirement segment s Full Service business for potential impairment as of March 31, 2009 and determined that a goodwill impairment did not exist, as the fair value of the business, which was calculated by applying a discounted cash flow analysis to its expected future earnings, was greater than its carrying value. The carrying value of the Retirement segment s Full Service business goodwill was $444 million as of March 31, 2009.

During 2008, we recorded a total impairment charge for goodwill of $337 million, which was included in General and administrative expenses. These impairments reflected the deterioration of financial conditions in 2008 and the impact of this deterioration on expected future earnings of these businesses, including: (1) for our Individual Annuities reporting unit, equity market declines and resulting additional market depreciation within separate account assets and corresponding decreases in our anticipated future fee income; (2) for our International Investments reporting unit, significant market deterioration resulting in both a reduction in value and an outflow of assets under management which contributed to lower asset management fees earned in the fourth quarter of 2008 and expected in future periods and (3) for our Prudential Real Estate and Relocation reporting unit, further deterioration of the U.S. housing market, including the number of transactions and the national average home sale price which both declined in the fourth quarter of 2008, and the impact of this decline on future anticipated revenues of this business.

Valuation of Investments, Including Derivatives, and the Recognition of Other-than-Temporary Impairments

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, equity securities, other invested assets, and 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 we generally use include swaps, futures, forwards

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and options and may be exchange-traded or contracted in the over-the-counter market. We are also party to financial instruments that contain derivative instruments that are embedded in the financial instruments. Management believes the following accounting policies related to investments, including derivatives, are most dependent on the application of estimates and assumptions. Each of these policies is discussed further within other relevant disclosures related to the investments and derivatives, as referenced below.

- Valuation of investments, including derivatives
- Recognition of other-than-temporary impairments
- Determination of the valuation allowance for losses on commercial mortgage and other loans

We present our investments classified as available for sale, including fixed maturity and equity securities, our investments classified as trading, such as our trading account assets supporting insurance liabilities, our derivatives, and our embedded derivatives at fair value in the statements of financial position. For additional information regarding the key estimates and assumptions surrounding the determination of fair value of fixed maturity and equity securities, as well as derivative instruments, embedded derivatives and other investments, see Note 20 to the Consolidated Financial Statements and Valuation of Assets and Liabilities Fair Value of Assets and Liabilities.

For our investments classified as available for sale, the impact of changes in fair value is recorded as an unrealized gain or loss in Accumulated other comprehensive income (loss), net, a separate component of equity. For our investments classified as trading, the impact of changes in fair value is recorded within Asset management fees and other income. In addition, investments classified as available for sale, as well as those classified as held to maturity, are subject to impairment reviews to identify when a decline in value is other-than-temporary. For a discussion of our policies regarding other-than-temporary declines in investment value and the related methodology for recording other-than-temporary impairments of fixed maturity and equity securities, see Note 2 to the Consolidated Financial Statements, Realized Investment Gains and Losses and General Account Investments General Account Investments Fixed Maturity Securities Other-than-Temporary Impairments of Fixed Maturity Securities and Realized Investment Gains and Losses and General Account Investments General Account Investments Equity Securities Other-than-Temporary Impairments of Equity Securities.

Commercial mortgage and other loans are carried primarily at unpaid principal balances, net of unamortized premiums or discounts and a valuation allowance for losses. For a discussion of our policies regarding the valuation allowance for commercial mortgage and other loans see Realized Investment Gains and Losses and General Account Investments General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality.

For a discussion of our investment portfolio, including the gross unrealized gains and losses as of December 31, 2009, related to the fixed maturity and equity securities of our general account, and the carrying value, credit quality, and allowance for losses related to the commercial mortgage and other loans of our general account, see Realized Investment Gains and Losses and General Account Investments General Account Investments. For a discussion of the effects of impairments and changes to the valuation allowance for commercial mortgage and other loans on our operating results for the years ended December 31, 2009, 2008 and 2007, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.

Policyholder Liabilities

Future Policy Benefit Reserves, other than Unpaid Claims and Claim Adjustment Expenses

We establish reserves for future policy benefits to or on behalf of policyholders in the same period in which the policy is issued. These reserves relate primarily to the traditional participating whole life policies of our Closed Block Business and the non-participating whole life, term life, and life contingent structured settlement and group annuity products of our Financial Services Businesses.

The future policy benefit reserves for the traditional participating life insurance products of our Closed Block Business, which as of December 31, 2009, represented 42% of our total future policy benefit reserves are determined using the net level premium method as prescribed by U.S. GAAP. Under this method, the future policy benefit reserves are accrued as a level proportion of the premium paid by the policyholder. In applying this method, we use mortality assumptions to determine our expected future benefits and expected future premiums, and apply an interest rate to determine the present value of both the expected future benefit payments and the expected future premiums. The mortality assumptions used are based on data from the standard industry mortality tables that were used to determine the cash surrender value of the policies, and the interest rates used are the contractually guaranteed interest rates used to calculate the cash surrender value of the policy. Gains or losses in our results of operations resulting from deviations in actual experience compared to the experience assumed in establishing our reserves for this business are recognized in the determination of our annual dividends to these policyholders. In recent years, these gains or losses generally have not created significant volatility in our results of operations since the Closed Block had recognized a cumulative policyholder dividend obligation expense in Policyholders dividends, for the excess of actual cumulative earnings over expected cumulative earnings as determined at the time of demutualization. However, as of December 31, 2009, actual cumulative earnings are below expected cumulative earnings by $601 million, thereby eliminating the cumulative policyholder dividend obligation expense. Without the benefit of the cumulative earnings policyholder dividend obligation, these gains or losses could result in greater volatility in our results of operations.

The future policy benefit reserves for our International Insurance segment and Individual Life segment, which as of December 31, 2009, represented 43% of our total future policy benefit reserves combined, relate primarily to non-participating whole life and term life products and are determined in accordance with U.S. GAAP as the present value of expected future benefits to or on behalf of policyholders plus the present value of future maintenance expenses less the present value of future net premiums. The expected future benefits and expenses are determined using assumptions as to mortality, lapse, and maintenance expense. Reserve assumptions are based on best estimate assumptions as of the date the policy is issued with provisions for the risk of adverse deviation. After our reserves are initially established, we perform premium deficiency tests using best estimate assumptions as of the testing date without provisions for adverse deviation. If reserves determined based on these best estimate assumptions are greater than the net U.S. GAAP liabilities (i.e., reserves net of any DAC asset), the existing net U.S. GAAP liabilities are adjusted to the greater amount. Our best estimate assumptions are determined by product group. Mortality assumptions are generally based on the Company s historical experience or standard industry tables, as applicable; our expense assumptions are based on current levels of maintenance costs, adjusted for the effects of inflation; and our interest rate assumptions are based on current and expected net investment returns. We review our mortality assumptions annually. Generally, we do not expect our mortality trends to change significantly in the short-term and to the extent these trends may change we expect such changes to be gradual over the long-term.

The reserves for future policy benefits of our Retirement segment, which as of December 31, 2009 represented 11% of our total future policy benefit reserves, relate to our non-participating life contingent group annuity and structured settlement products. These reserves are generally determined as the present value of expected future benefits and expenses based on assumptions as to mortality, retirement, maintenance expense, and interest rates. Reserves are based on best estimate assumptions as of the date the contract is issued with provisions for the risk of adverse deviation. After our reserves are initially established, we perform premium deficiency testing by product group using best estimate assumptions as of the testing date without provisions for adverse deviation. If reserves determined based on these assumptions are greater than the existing reserves, the existing reserves are adjusted to the greater amount. Our best estimate assumptions are determined by product group. Our mortality and retirement assumptions are based on Company or industry experience; our expense assumptions are based on current levels of maintenance costs, adjusted for the effects of inflation; and our interest rate assumptions are based on current and expected net investment returns. We generally review our mortality and retirement assumptions annually. Generally, we do not expect our actual mortality or retirement trends to change significantly in the short-term and to the extent these trends may change we expect such changes to be gradual over the long-term.

The remaining 4% of the reserves for future policy benefits as of December 31, 2009 represented reserves for the guaranteed minimum death and optional living benefit features of the variable annuity products in our Individual Annuities segment, and group life and disability and long-term care benefits in our Group Insurance segment. The optional living benefits are primarily accounted for as embedded derivatives, with fair values calculated as the present value of future expected benefit payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. For additional information regarding the valuation of these optional living benefit features, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Variable Annuity Optional Living Benefit Features.

In establishing reserves for guaranteed minimum death and income benefits related to variable annuity policies, we must make estimates and assumptions about the timing of annuitization, contract lapses and contractholder mortality, as well as interest rates and equity market returns. Assumptions relating to contractholder behavior, such as the timing of annuitization and contract lapses, are based on our experience by contract group, and vary by product type and year of issuance. Our dynamic lapse rate assumption applies a different lapse rate on a contract by contract basis based on a comparison of the guaranteed minimum death or income benefit and the current policyholder account value as well as other factors such as the applicability of any surrender charges. In-the-money contracts are those with a guaranteed minimum benefit in excess of the current policyholder account value. Since in-the-money contracts are less likely to lapse, we apply a lower lapse rate assumption to these contracts. As an example, the lapse rate assumptions for contracts that are not in-the-money and are out of their surrender charge period average between 8% and 20% per year. This lapse rate assumption would be reduced for similar in-the-money contracts, based on the extent of the excess described above and the age of the contract. Mortality assumptions are generally based on our historical experience or standard industry tables, and also vary by contract group. Unless a material change in behavior or mortality experience is observed in an interim period, we generally update assumptions related to contract holder behavior and mortality in the third quarter of each year by considering the actual results that have occurred during the period from the most recent update to the expected amounts. Generally, we do not expect our actual mortality trends to change significantly in the short-term, and to the extent these trends may change we expect such changes to be gradual over the long-term.

The future rate of return assumptions used in establishing reserves for guaranteed minimum death and income benefits related to variable annuities products are derived using a reversion to the mean approach, a common industry practice. For additional information regarding our future expected rate of return assumptions and our reversion to the mean approach see, Deferred Policy Acquisition Costs. The following table provides a demonstration of the sensitivity of the reserves for guaranteed minimum death and income benefits related to variable annuity policies relative to our future rate of return assumptions by quantifying the adjustments to these reserves that would be required assuming both a 100 basis point increase and decrease in our future rate of return. The sensitivity includes an increase and decrease of 100 basis points to both the near-term future rate of return assumptions used over the next four years, and the long-term expected rate of return used thereafter. While the information below is for illustrative purposes only and does not reflect our expectations regarding future rate of return assumptions, it is a near-term, reasonably likely change that illustrates the potential impact of such a change. This information considers only the direct effect of changes in our future rate of return on operating results due to the change in the reserve balance and not changes in any other assumptions such as persistency, mortality, or expenses included in our evaluation of the reserves, or any changes on DAC or other balances.

	December 31, 2009 Increase/(Reduction) in GMDB/GMIB Reserves (in millions)
Decrease in future rate of return by 100 basis points	$ 87
Increase in future rate of return by 100 basis points	$ (76)

For a discussion of adjustments to the reserves for guaranteed minimum death and income benefits related to our Individual Annuities segment for the years ended December 31, 2009, 2008 and 2007, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

Unpaid claims and claim adjustment expenses

Our liability for unpaid claims and claim adjustment expenses of $2.3 billion as of December 31, 2009 is reported as a component of Future policy benefits and relates primarily to the group long-term disability products of our Group Insurance segment. This liability represents our estimate of future disability claim payments and expenses as well as estimates of claims that we believe have been incurred, but have not yet been reported as of the balance sheet date. We do not establish loss liabilities until a loss has occurred. As prescribed by U.S. GAAP, our liability is determined as the present value of expected future claim payments and expenses.

Expected future claims payments are estimated using assumed mortality and claim termination factors and an assumed interest rate. The mortality and claim termination factors are based on standard industry tables and the Company s historical experience. Our interest rate assumptions are based on factors such as market conditions and expected investment returns. Of these assumptions, our claim termination assumptions have historically had the most significant effect on our level of liability. We review our claim termination assumptions compared to actual terminations annually. These studies review actual claim termination experience over a number of years with more weight placed on the actual experience in the more recent years. If actual experience results in a different assumption, we adjust our liability for unpaid claims and claims adjustment expenses accordingly with a charge or credit to current period earnings.

Pension and Other Postretirement Benefits

We sponsor pension and other postretirement benefit plans covering employees who meet specific eligibility requirements. Our net periodic costs for these plans consider an assumed discount (interest) rate, an expected rate of return on plan assets and expected increases in compensation levels and trends in health care costs. Of these assumptions, our expected rate of return assumptions, and to a lesser extent our discount rate assumptions, have historically had the most significant effect on our net period costs associated with these plans.

We determine our expected rate of return on plan assets based upon a building block approach that considers inflation, real return, term premium, credit spreads, equity risk premium and capital appreciation as well as expenses, expected asset manager performance and the effect of rebalancing for the equity, debt and real estate asset mix applied on a weighted average basis to our pension asset portfolio. See Note 18 to our Consolidated Financial Statements for our actual asset allocations by asset category and the asset allocation ranges prescribed by our investment policy guidelines for both our pension and other postretirement benefit plans. Our assumed long-term rate of return for 2009 was 7.50% for our pension plans and 8.00% for our other postretirement benefit plans. Given the amount of plan assets as of December 31, 2008, the beginning of the measurement year, if we had assumed an expected rate of return for both our pension and other postretirement benefit plans that was 100 basis points higher or 100 basis points lower than the rates we assumed, the change in our net periodic costs would have been as shown in the table below. The information provided in the table below considers only changes in our assumed long-term rate of return given the level and mix of invested assets at the beginning of the measurement year, without consideration of possible changes in any of the other assumptions described above that could ultimately accompany any changes in our assumed long-term rate of return.

	For the year ended December 31, 2009	
	Increase/(Decrease) in Net Periodic Pension Cost	Increase/(Decrease) in Net Periodic Other Postretirement Cost
	(in millions)	
Increase in expected rate of return by 100 basis points	$ (96)	$ (11)
Decrease in expected rate of return by 100 basis points	$ 96	$ 11

We determine our discount rate, used to value the pension and postretirement benefit obligations, based upon rates commensurate with current yields on high quality corporate bonds. See Note 18 to our Consolidated Financial Statements for information regarding the methodology we employ to determine our discount rate. Our assumed discount rate for 2009 was 6.00% for our pension plans and 6.00% for our other postretirement benefit plans. Given the amount of pensions and postretirement obligation as of December 31, 2008, the beginning of the measurement year, if we had assumed a discount rate for both our pension and other postretirement benefit plans that was 100 basis points higher or 100 basis points lower than the rates we assumed, the change in our net periodic costs would have been as shown in the table below. The information provided in the table below considers only changes in our assumed discount rate without consideration of possible changes in any of the other assumptions described above that could ultimately accompany any changes in our assumed discount rate.

For the year ended December 31, 2009

	Increase/(Decrease) in Net Periodic Pension Cost	Increase/(Decrease) in Net Periodic Other Postretirement Cost
	(in millions)	
Increase in discount rate by 100 basis points	$ (4)	$ (5)
Decrease in discount rate by 100 basis points	$ 7	$ 2

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Given the application of the authoritative guidance for accounting for pensions, and the deferral and amortization of actuarial gains and losses arising from changes in our assumed discount rate, the change in net periodic pension cost arising from an increase in the assumed discount rate by 100 basis points would not be expected to equal the change in net periodic pension cost arising from a decrease in the assumed discount rate by 100 basis points.

For a discussion of our expected rate of return on plan assets and discount rate for our qualified pension plan in 2010 see Results of Operations for Financial Services Businesses by Segment Corporate and Other.

In addition to the effect of changes in our assumptions, the net periodic cost or benefit from our pension and other postretirement benefit plans may change due to factors such as actual experience being different from our assumptions, special benefits to terminated employees, or changes in benefits provided under the plans.

Taxes on Income

Our effective tax rate is based on income, non-taxable and non-deductible items, statutory tax rates and tax planning opportunities available in the various jurisdictions in which we operate. Inherent in determining our annual tax rate are judgments regarding business plans, planning opportunities and expectations about future outcomes.

Tax regulations require items to be included in the tax return at different times from the items reflected in the financial statements. As a result, the effective tax rate reflected in the financial statements is different than the actual rate applied on the tax return. Some of these differences are permanent such as expenses that are not deductible in our tax return, and some differences are temporary, reversing over time, such as valuation of insurance reserves. Temporary differences create deferred tax assets and liabilities. Deferred tax assets generally represent items that can be used as a tax deduction or credit in future years for which we have already recorded the tax benefit in our income statement. Deferred tax liabilities generally represent tax expense recognized in our financial statements for which payment has been deferred, or expenditures for which we have already taken a deduction in our tax return but have not yet recognized in our financial statements.

The application of U.S. GAAP requires us to evaluate the recoverability of our deferred tax assets and establish a valuation allowance if necessary to reduce our deferred tax asset to an amount that is more likely than not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. In evaluating the need for a valuation allowance we consider many factors, including: (1) the nature of the deferred tax assets and liabilities; (2) whether they are ordinary or capital; (3) in which tax jurisdictions they were generated and the timing of their reversal; (4) taxable income in prior carryback years as well as projected taxable earnings exclusive of reversing temporary differences and carryforwards; (5) the length of time that carryovers can be utilized in the various taxing jurisdictions; (6) any unique tax rules that would impact the utilization of the deferred tax assets; and (7) any tax planning strategies that we would employ to avoid a tax benefit from expiring unused. Although realization is not assured, management believes it is more likely than not that the deferred tax assets, net of valuation allowances, will be realized.

Our accounting represents management s best estimate of future events that can be appropriately reflected in the accounting estimates. Certain changes or future events, such as changes in tax legislation, geographic mix of earnings and completion of tax audits could have an impact on our estimates and effective tax rate. For example, the dividends received deduction, or DRD, reduces the amount of dividend income subject to tax and is a significant component of the difference between our actual tax expense and the expected amount determined using the federal statutory tax rate of 35%. The U.S. Treasury Department and the Internal Revenue Service, or IRS, intend to address through regulations the methodology to be followed in determining the DRD related to variable life insurance and annuity contracts. On February 1, 2010, the Obama

Administration released the General Explanations of the Administration s Revenue Proposals. Although the Administration has not released proposed statutory language, one proposal would change the method used to determine the amount of the DRD. A change in the DRD, including the possible retroactive or prospective elimination of this deduction through regulation or legislation, could increase our actual tax expense and reduce our consolidated net income.

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On January 1, 2007, we adopted the revised authoritative guidance for accounting for uncertainty in income taxes which prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that a company has taken or expects to take on tax returns. The application of this guidance is a two-step process, the first step being recognition. We determine whether it is more likely than not, based on the technical merits, that the tax position will be sustained upon examination. If a tax position does not meet the more likely than not recognition threshold, the benefit of that position is not recognized in the financial statements. The second step is measurement. We measure the tax position as the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate resolution with a taxing authority that has full knowledge of all relevant information. This measurement considers the amounts and probabilities of the outcomes that could be realized upon ultimate settlement using the facts, circumstances, and information available at the reporting date.

An increase or decrease in our effective tax rate by one percent of income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures, would have resulted in an increase or decrease in our consolidated loss from continuing operations before equity in earnings of operating joint ventures in 2009 of $16 million.

Our liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the IRS or other taxing authorities. Audit periods remain open for review until the statute of limitations has passed. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards, or tax attributes, the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to our 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, unless extended. Tax years 2006 through 2008 are still open for IRS examination. See Note 19 to the Consolidated Financial Statements for a discussion of the impact in 2009 of changes to our total unrecognized tax benefits related to tax years for which the statute of limitations has expired. We do not anticipate any significant changes within the next 12 months to our total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

In addition, see Note 19 to the Consolidated Financial Statements for additional discussion of the status of our tax audits, including those of our international affiliates that file separate tax returns and are subject to the audits of the local taxing authority.

Reserves for Contingencies

A contingency is an existing condition that involves a degree of uncertainty that will ultimately be resolved upon the occurrence of future events. Under U.S. GAAP, reserves for contingencies are required to be established when the future event is probable and its impact can be reasonably estimated. An example is the establishment of a reserve for losses in connection with an unresolved legal matter. The initial reserve reflects management s best estimate of the probable cost of ultimate resolution of the matter and is revised accordingly as facts and circumstances change and, ultimately, when the matter is brought to closure.

Accounting Pronouncements Adopted

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

Recently Issued Accounting Pronouncements

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

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Consolidated Results of Operations

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

	Year ended December 31,		
	2009	2008	2007
		(in millions)	
Financial Services Businesses by segment:			
Individual Annuities	$ 621	$ (1,218)	$ 672
Retirement	376	(1,109)	364
Asset Management	9	300	783
Total U.S. Retirement Solutions and Investment Management Division	1,006	(2,027)	1,819
Individual Life	696	(173)	548
Group Insurance	97	138	247
Total U.S. Individual Life and Group Insurance Division	793	(35)	795
International Insurance	1,111	1,923	1,905
International Investments		(40)	247
Total International Insurance and Investments Division	1,111	1,883	2,152
Corporate and Other	(861)	(976)	(373)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	2,049	(1,155)	4,393
Income tax expense (benefit)	214	(480)	1,120
Income (loss) from continuing operations before equity in earnings of operating joint ventures for Financial Services Businesses	1,835	(675)	3,273
Equity in earnings of operating joint ventures, net of taxes	1,523	(447)	246
Income (loss) from continuing operations for Financial Services Businesses	3,358	(1,122)	3,519
Income from discontinued operations, net of taxes	19	18	18
Net income (loss) Financial Services Businesses	3,377	(1,104)	3,537
Less: Income (loss) attributable to noncontrolling interests	(34)	36	67
Net income (loss) of Financial Services Businesses attributable to Prudential Financial, Inc.	$ 3,411	$ (1,140)	$ 3,470
Basic income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Common Stock	$ 7.64	$ (2.57)	$ 7.57
Diluted income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Common Stock	$ 7.59	$ (2.57)	$ 7.47
Basic net income (loss) attributable to Prudential Financial, Inc. per share Common Stock	$ 7.68	$ (2.53)	$ 7.61
Diluted net income (loss) attributable to Prudential Financial, Inc. per share Common Stock	$ 7.63	$ (2.53)	$ 7.51
Closed Block Business:			
Income (loss) from continuing operations before income taxes for Closed Block Business	$ (480)	$ 16	$ 290
Income tax expense (benefit)	(193)	(7)	100
Income (loss) from continuing operations for Closed Block Business	(287)	23	190
Income from discontinued operations, net of taxes			2
Net income (loss) Closed Block Business	(287)	23	192
Less: Income (loss) attributable to noncontrolling interests			

Net income (loss) of Closed Block Business attributable to Prudential Financial, Inc.	$ (287)	$ 23	$ 192
Basic and diluted income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Class B Stock	$ (165.00)	$ (16.00)	$ 68.50
Basic and diluted net income (loss) attributable to Prudential Financial, Inc. per share Class B Stock	$ (165.00)	$ (16.00)	$ 69.50
Consolidated:			
Net income (loss) attributable to Prudential Financial, Inc.	$ 3,124	$ (1,117)	$ 3,662

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Results of Operations Financial Services Businesses

2009 to 2008 Annual Comparison. Income (loss) from continuing operations for the Financial Services Businesses increased $4.480 billion, from a loss of $1.122 billion in 2008 to income of $3.358 billion in 2009. Results in 2009 include a $1.457 billion after tax gain on the sale of our minority joint venture interest in Wachovia Securities to Wells Fargo. Also contributing to the increase in income was a favorable variance related to adjustments to the amortization of deferred policy acquisition and other costs and the reserves for our variable annuity products, largely reflecting improved market conditions in 2009. In addition, income reflects an increase in other revenues, partially offset by an increase in benefits and expenses, due to changes in value of recorded assets and recorded liabilities that are expected to ultimately accrue to contractholders. Results for the current year include a favorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with certain variable annuity products. This variance was largely driven by changes in our adjustment to the embedded derivative liabilities for market-perceived non-performance risk, and resulted in a related increase in the amortization of deferred policy acquisition and other costs. Income also includes a net increase in premiums and policy charges and fee income, largely offset by an increase in policyholders benefits, including changes in reserves, reflecting business growth, as well as the impact of currency fluctuations, in our International Insurance operations. On a diluted per share basis, income (loss) from continuing operations attributable to the Financial Services Businesses for the year ended December 31, 2009 of $7.59 per share of Common Stock increased from a loss of $(2.57) per share of Common Stock for the year ended December 31, 2008. We analyze the operating performance of the segments included in the Financial Services Businesses using adjusted operating income as described in Segment Measures, below. For a discussion of our segment results on this basis see Results of Operations for Financial Services Businesses by Segment, below. In addition, for a discussion of the realized investment gains (losses), net attributable to the Financial Services Businesses, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses, below. For additional information regarding investment income, excluding realized investment gains (losses) see Realized Investment Gains and Losses and General Account Investments General Account Investments, below.

The direct equity adjustment increased income from continuing operations available to holders of the Common Stock for earnings per share purposes by $43 million for the year ended December 31, 2009, compared to $55 million for the year ended December 31, 2008. As described more fully in Note 16 to the Consolidated Financial Statements, the direct equity adjustment modifies earnings available to holders of the Common Stock and the Class B Stock for earnings per share purposes. The holders of the Common Stock will benefit from the direct equity adjustment as long as reported administrative expenses of the Closed Block Business are less than the cash flows for administrative expenses determined by the policy servicing fee arrangement that is based upon insurance and policies in force and statutory cash premiums. Generally, as statutory cash premiums and policies in force in the Closed Block Business decline, we expect the benefit to the Common Stock holders from the direct equity adjustment to decline accordingly. If the reported administrative expenses of the Closed Block Business exceed the cash flows for administrative expenses determined by the policy servicing fee arrangement, the direct equity adjustment will reduce income available to holders of the Common Stock for earnings per share purposes.

2008 to 2007 Annual Comparison. Income (loss) from continuing operations for the Financial Services Businesses decreased $4.641 billion, from income of $3.519 billion in 2007 to a loss of $1.122 billion in 2008, reflecting the impact of unfavorable market conditions on the results of our segments and investment portfolio. The decrease reflects pre-tax net investment losses in 2008, within both our general account and proprietary investments, and impairments in 2008 related to goodwill and declines in value of investments in certain operating joint ventures. In addition, the decrease reflects reserve increases for the guaranteed minimum death and income benefit features of our variable annuity products and increased amortization of deferred policy acquisition and other costs reflecting an update of actuarial assumptions primarily due to the impact of market conditions. Results for 2008 include our share of costs associated with a settlement relating to auction rate securities of the retail brokerage joint venture with Wachovia, which was sold on December 31, 2009. Partially offsetting these items were improved results from continued growth in our international insurance operations. On a diluted per share basis, income (loss) from continuing operations attributable to the Financial Services Businesses for the year ended December 31, 2008 was $(2.57) per share of Common Stock compared to $7.47 per share of Common Stock for the year ended December 31, 2007. We analyze the operating performance of the segments included in the Financial Services Businesses using adjusted operating income as described in

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Segment Measures, below. For a discussion of our segment results on this basis, see Results of Operations for Financial Services Businesses by Segment, below. In addition, for a discussion of the realized investment gains (losses), net, attributable to the Financial Services Businesses, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses, below. For additional information regarding investment income, excluding realized investment gains (losses) see Realized Investment Gains and Losses and General Account Investments General Account Investments, below.

The direct equity adjustment, as described above, increased income from continuing operations available to holders of the Common Stock for earnings per share purposes by $55 million for the year ended December 31, 2008, compared to $53 million for the year ended December 31, 2007.

Results of Operations Closed Block Business

2009 to 2008 Annual Comparison. Income (loss) from continuing operations for the Closed Block Business for the year ended December 31, 2009, was a loss of $287 million, or $(165.00) per share of Class B Stock, compared to income of $23 million, or $(16.00) per share of Class B Stock, for the year ended December 31, 2008. The direct equity adjustment decreased income from continuing operations available to the Class B Stock holders for earnings per share purposes by $43 million for the year ended December 31, 2009, compared to $55 million for the year ended December 31, 2008. For a discussion of the results of operations for the Closed Block Business, see Results of Operations of Closed Block Business, below.

2008 to 2007 Annual Comparison. Income (loss) from continuing operations attributable to the Closed Block Business for the year ended December 31, 2008, was income of $23 million, or $(16.00) per share of Class B stock, compared to income of $190 million, or $68.50 per share of Class B Stock, for the year ended December 31, 2007. The direct equity adjustment decreased income from continuing operations available to the Class B Stock holders for earnings per share purposes by $55 million for the year ended December 31, 2008, compared to $53 million for the year ended December 31, 2007. For a discussion of the results of operations for the Closed Block Business, see Results of Operations of Closed Block Business, below.

Segment Measures

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

See Note 22 to the Consolidated Financial Statements for further information on the presentation of segment results and our definition of adjusted operating income.

Results of Operations for Financial Services Businesses by Segment

U.S. Retirement Solutions and Investment Management Division

Individual Annuities

Operating Results

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

	Year ended December 31,		
	2009	2008	2007
	(in millions)		
Operating results:			
Revenues	$ 2,871	$ 1,999	$ 2,503
Benefits and expenses	2,168	3,076	1,781
Adjusted operating income	703	(1,077)	722
Realized investment gains (losses), net, and related adjustments(1)	61	(153)	(62)
Related charges(1)(2)	(143)	12	12
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 621	$ (1,218)	$ 672

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

Adjusted Operating Income

2009 to 2008 Annual Comparison. Adjusted operating income increased $1,780 million, from a loss of $1,077 million in 2008 to income of $703 million in 2009. As shown in the following table, adjusted operating income for 2009 included $379 million of benefits related to adjustments to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products and to our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs, compared to $1,334 million of charges included in 2008, resulting in a $1,713 million favorable variance.

Year ended December 31, 2009			Year ended December 31, 2008		
Amortization of	Reserves for GMDB /	Total	Amortization of	Reserves for GMDB /	Total

	DAC and Other Costs(1)	GMIB(2)		DAC and Other Costs(1)	GMIB(2)	
				(in millions)		
Quarterly market performance adjustment(3)	$ 54	$ 277	$ 331	$ (576)	$ (484)	$ (1,060)
Annual review / assumption updates	(30)	(19)	(49)	18	(118)	(100)
Quarterly adjustment for current period experience	63	34	97	(81)	(93)	(174)
Total	$ 87	$ 292	$ 379	$ (639)	$ (695)	$ (1,334)

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

These adjustments primarily reflect the market conditions that existed in the respective periods, and the estimated impact of those market conditions on contractholder behavior, and are discussed individually in more detail below. Also included within the increase in adjusted operating income is a $974 million favorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features, including changes in our market-perceived non-performance risk as discussed below. A corresponding increase in current period gross profits related to this favorable variance led to an offsetting increase in the amortization of deferred policy acquisition and other costs of $661 million. Partially offsetting these increases was $180 million of mark-to-market losses related to derivative positions associated with our capital hedging program, which we began in the second quarter of 2009, also discussed below. Also serving as a partial offset was a decrease in fee income, driven by lower average variable annuity asset balances invested in separate accounts. The declines in average separate account assets were due to market depreciation and transfers of balances to fixed income investments backed by our general account. The transfer of balances to fixed income investments backed by our general account relates to an automatic rebalancing element in some of our optional living benefit features, which, as part of the overall product design, transferred approximately $10.5 billion out of the separate accounts and into fixed income investments backed by our general account from January 1, 2008 through March 31, 2009, due to equity market declines. Subsequently, in the remainder of 2009, approximately $3.5 billion was returned from fixed income investments backed by our general account to the separate accounts by operation of the automatic rebalancing element due to market improvements. Higher average annuity account values in investments backed by our general account resulting from these transfers also led to improved investment results, which more than offset the decrease in fee income.

The $331 million of benefits in 2009 relating to the quarterly market performance adjustments shown in the table above are attributable to changes to our estimate of total gross profits to reflect actual fund performance in 2009. The following table shows the actual quarterly rate of return on variable annuity account values for each of the quarters in 2009 compared to our previously expected quarterly rate of return used in our estimate of total gross profits.

	First Quarter 2009	Second Quarter 2009	Third Quarter 2009	Fourth Quarter 2009
Actual rate of return	(4.5)%	12.7%	10.6%	3.0%
Expected rate of return	2.5%	2.5%	2.4%	2.1%

The overall better than expected market returns in 2009 increased our estimates of total gross profits and decreased our estimate of future expected claims costs associated with the guaranteed minimum death and income benefit features of our variable annuity products, by establishing a new, higher starting point for the variable annuity account values used in estimating those items for future periods. The previously expected rates of return for 2009, for most contract groups, was based upon our maximum future rate of return assumption under the reversion to the mean approach, as discussed below. The increase in our estimate of total gross profits and decrease in our estimate of future expected claims costs results in a lower required rate of amortization and lower required reserve provisions, which are applied to all prior periods. The resulting cumulative adjustment to prior amortization and reserve provisions are recognized in the current period. In addition, the lower rate of amortization and reserve provisions will also be applied in calculating amortization and the provision for reserves in future periods. The $1,060 million charge in 2008 is attributable to a similar but opposite impact on gross profits of market value decreases in the underlying assets associated with our variable annuity products, reflecting financial market conditions during the period.

Included within the $576 million of increased amortization of deferred policy acquisition and other costs for 2008 is a $234 million loss recognition charge to further reduce the balance of valuation of business acquired, or VOBA, related to the variable annuity contracts acquired from Allstate. The additional charge was required in 2008 as the VOBA balance for those contracts otherwise would have been in excess of the present value of estimated future gross profits. In addition, the $54 million decrease in amortization of deferred policy acquisition and other costs for 2009 is net of a $73 million charge to impair the entire remaining VOBA balance related to the variable annuity contracts acquired from Allstate. The additional charge was required in the first quarter of 2009, as the declines in estimated future gross profits related to market performance caused the present value of estimated gross profits for these contracts to fall below zero. Since the VOBA balance was completely impaired for these contracts, it cannot be reestablished for market value appreciation in subsequent periods.

As shown in the table above, results for both periods include the impact of the annual reviews of the assumptions used in the reserve for the guaranteed minimum death and income benefit features of our variable annuity products and in our estimate of total gross profits used as a basis for amortizing deferred policy

acquisition and other costs. The year ended December 31, 2009 included $49 million of charges from these annual reviews, primarily related to reductions in the future rate of return assumptions applied to the underlying assets associated with our variable annuity products. Partially offsetting the impact of the updated future rate of return assumptions were benefits related to the impact of lower mortality and higher investment spread assumptions. Adjusted operating income for 2008 included $100 million of charges from these annual reviews, primarily reflecting increased cost of expected income and death benefit claims due to lower expected lapse rates for policies where the current policyholder account value is below the guaranteed minimum death benefit.

As mentioned above, we derive our near-term future rate of return assumptions using a reversion to the mean approach, a common industry practice. Under this approach, we consider actual returns over a period of time and initially adjust future projected returns over a four year period so that the assets grow at the long-term expected rate of return for the entire period. However, beginning in the fourth quarter of 2008 and continuing through 2009, the projected future annual rate of return calculated using the reversion to the mean approach for most contract groups was greater than our maximum future rate of return assumption across all asset types for this business. In those cases, we utilize the maximum future rate of return over the four year period, thereby limiting the impact of the reversion to the mean on our estimate of total gross profits. As discussed above, the near-term maximum future rate of return under the reversion to the mean approach was reduced in 2009 from 10.5% to 9.7% as part of our annual reviews. Included in this revised blended maximum future rate are assumptions for returns on various asset classes, including a 13% annual maximum rate of return on equity investments. Further or continued market volatility could result in additional market value changes within our separate account assets and corresponding changes to our gross profits, as well as additional adjustments to the amortization of deferred policy acquisition and other costs, and the costs relating to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products. Given that the estimates of future gross profits are based upon our maximum future rate of return assumption for most contract groups, all else being equal, future rates of return higher or lower than 2.4% per quarter, or 9.7% per annum, will result in decreases or increases in the amortization of deferred policy acquisition and other costs, and the costs relating to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products. Including the offsetting impact of certain contract groups relating to business issued in 2009, our weighted average expected rate of return across all contract groups is 8.0% per annum as of December 31, 2009.

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

The $974 million favorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features referred to above reflects a benefit of $536 million in 2009 compared to a charge of $438 million in 2008. The benefit in 2009 includes $202 million of net benefits related to updates of the inputs used in the valuation of the embedded derivative liabilities, including a $312 million benefit related to an update to reflect a market-perceived increase in our own risk of non-performance. The remaining $110 million of net charges was primarily driven by a reduction in the expected lapse rate assumption based on our actual lapse experience, partially offset by the inclusion of new market inputs for implied volatility as well as updated assumptions for other actuarial and capital markets inputs. In light of recent developments, including rating agency downgrades to the claims-paying ratings of our insurance subsidiaries, beginning in the first quarter of 2009, we incorporated an additional spread over LIBOR into the discount rate used in the valuation of the embedded derivative liabilities to reflect an increase in our market perceived non-performance risk, thereby reducing the value of the embedded derivative liabilities. The $438 million charge in 2008 included an $86 million benefit related to an update of the assumptions used in the valuation of the embedded derivatives, primarily driven by an update of the equity volatility assumption to better match the actual equity indices referenced.

Excluding the $202 million of net benefits related to updates of the inputs used in the valuation of the embedded derivatives associated with our living benefit features, the hedging activities resulted in a $334 million benefit in 2009, reflecting a $3,049 million benefit related to the change in the fair value of the embedded derivatives, partially offset by a $2,715 million charge related to the change in the fair value of the related hedge positions. The hedging activities in 2008, excluding similar assumption updates, resulted in a $524 million charge, reflecting a $3,018 million charge related to the change in the fair value of the embedded derivatives, partially offset by a $2,494 million benefit related to the change in the fair value of the related hedge positions. Variances for both periods are primarily driven by differences in the actual performance of the underlying separate account funds relative to the performance of the market indices we utilize as a basis for developing our hedging strategy. Given the sensitivity of the fair value of both the embedded derivatives and related hedge positions to financial market conditions, the variance related to the mark-to-market of these items for a given period will be largely dependent on the financial market conditions throughout the period. For additional information regarding the methodology used in determining the fair value of the embedded derivatives associated with our living benefit features, see Note 20 to the Consolidated Financial Statements and Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Variable Annuity Optional Living Benefit Features.

The primary risk exposures of these optional living benefit features relate to actual deviations from, or changes to, the assumptions used in their original pricing, including equity market returns, interest rates, market volatility, timing of annuitization and withdrawals, contract lapses and contractholder mortality. Together with certain product design elements, our hedging program is designed to limit our exposure to the equity market, interest rate, and market volatility risk inherent in the living benefit features of certain variable annuity products, as part of our overall risk management strategy. In the second quarter of 2009, we began the expansion of our hedging program to include a portion of the market exposure related to the overall capital position of our variable annuity business, including the impact of certain statutory reserve exposures. These capital hedges primarily consist of equity-based total return swaps, as well as interest rate derivatives, which are designed to partially offset changes in our capital position resulting from market driven changes in certain living and death benefit features of our variable annuity products. In 2009, favorable market conditions resulted in an overall improvement in our capital position, which was partially offset by $180 million of mark-to-market losses on the capital hedges.

2008 to 2007 Annual Comparison. Adjusted operating income decreased $1,799 million, from income of $722 million in 2007 to a loss of $1,077 million in 2008. Adjusted operating income for 2008 included charges of $1,160 million, reflecting the impact of the annual reviews of, and market performance adjustment to, the reserves for the guaranteed minimum death and income benefit features of our variable annuity products and our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs. The total charge of $1,160 million in 2008 included $380 million of charges from the annual reviews, which were completed in the third quarter of 2008, and $780 million of charges relating to additional market performance adjustments in the fourth quarter of 2008. Adjusted operating income for 2007 included $30 million of benefits from the annual reviews.

The charges from the annual reviews of $380 million in 2008 included $265 million relating to reserve increases for the guaranteed minimum death and income benefit features of our variable annuity products and $115 million related to increased amortization of deferred policy acquisition and other costs. The charge relating to increased amortization of deferred policy acquisition and other costs primarily reflects the impact on gross profits of market value decreases in the underlying assets associated with our variable annuity products. The reserve increases for the guaranteed minimum death and income benefit features of our variable annuity products also reflects this impact, as well as increased cost of expected income and death benefit claims due to lower

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expected lapse rates for policies where the current policyholder account value is below the guaranteed minimum death benefit. Adjusted operating income for 2007 included $30 million of benefits from the annual reviews, reflecting market value increases in the underlying assets associated with our variable annuity products, and decreased cost of actual and expected death claims, partially offset by the impact of model refinements and higher expected lapse rates for the variable annuity business acquired from Allstate.

As discussed above, results for 2008 also include $780 million of charges associated with market performance related adjustments to our estimate of total gross profits to reflect actual fund performance in the fourth quarter of 2008. In light of recent market conditions, beginning in the fourth quarter of 2008 we determined that adjustments to our estimate of total gross profits to reflect actual fund performance and any corresponding changes to the future rate of return assumptions should no longer be dependent on a comparison to a statistically generated range of estimated gross profits. Instead, for purposes of evaluating deferred policy acquisition and other costs and the reserves for the guaranteed minimum death and income benefit features of our variable annuity products, total estimated gross profits are updated for these items each quarter. Market value declines in the fourth quarter of 2008 decreased our estimates of total gross profits by establishing a new, lower starting point for the variable annuity account values used in estimating gross profits for future periods. The decrease in our estimate of total gross profits results in a higher required rate of amortization, which is applied to all prior periods gross profits. The resulting cumulative adjustment to prior amortization is recognized in the current period. In addition, the higher rate of amortization will also be applied to future gross profits in calculating amortization in future periods. As noted above, prior to the fourth quarter of 2008 market performance related adjustments were included as part of our annual reviews. The charges from the annual reviews of $380 million in 2008 included $280 million of adjustments for unfavorable market performance, as discussed above.

We continue to derive our future rate of return assumptions using a reversion to the mean approach, a common industry practice. Under this approach, we consider actual returns over a period of time and initially adjust future projected returns over a four year period so that the assets grow at the long-term expected rate of return for the entire period. However, beginning in the second half of 2008, the projected future rate of return calculated using the reversion to the mean approach for most contract groups was greater than 10.5%, our maximum future rate of return assumption across all asset types as of December 31, 2008 for this business. In those cases we utilized the maximum future rate of return over the four year period, thereby limiting the impact of the reversion to the mean, and further decreasing our estimate of total gross profits.

The above adjustment for market performance included $443 million relating to increased amortization of deferred policy acquisition and other costs and $337 million relating to reserve increases for the guaranteed minimum death and income benefit features of our variable annuity products. Included within the $443 million of increased amortization of deferred policy acquisition and other costs is a $234 million loss recognition charge to further reduce the balance of valuation of business acquired, or VOBA, related to the variable annuity contracts acquired from Allstate. The additional charge was required as the VOBA balance for those contracts otherwise would have been in excess of the present value of estimated future gross profits.

Absent the effect of the annual reviews and market performance adjustments discussed above, adjusted operating income for 2008 decreased $609 million from 2007. Contributing to this decrease is a $481 million unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features. The unfavorable variance in our hedging results reflects a charge of $438 million in 2008 compared to a benefit of $43 million in 2007, and was largely due to unfavorable basis risk, primarily reflecting the underperformance of the underlying separate account funds relative to the performance of the market indices we utilized as a basis for developing our hedging strategy, driven by financial market conditions in 2008. The charge in 2008 includes an $86 million benefit for an update of the assumptions used in the valuation of the embedded derivatives, primarily relating to an update of implied volatility ratios to better match the actual equity indices referenced. Given the sensitivity of the fair value of both the embedded derivatives and related hedge positions to financial market conditions, the variance related to the mark-to-market of these items for a given period will be largely dependent on the financial market conditions throughout the period.

Also contributing to the decrease in adjusted operating income in 2008 was a decrease in fee income, driven by lower average variable annuity asset balances invested in separate accounts. The declines in separate account

assets were due to market depreciation and transfers of balances to fixed income investments backed by our general account. The transfer of balances to fixed income investments backed by our general account relates to an automatic rebalancing element in some of our living benefit features, which, as part of the overall product design, transferred approximately $10 billion in 2008, out of the separate accounts and into fixed income investments backed by our general account due to equity market declines. Higher average annuity account values in investments backed by our general account resulting from these transfers also led to improved investment results, which partially offset the decrease in fee income. Also serving as a partial offset to the decrease in adjusted operating income in 2008 was a decrease in the amortization of deferred policy acquisition costs and other costs, absent the effect of the annual reviews and market performance adjustments discussed above. The decrease primarily reflects the impact on gross profits of the unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features and the decrease in fee income, partially offset by the quarterly adjustments for current period experience, as explained below.

The quarterly adjustments for current period experience referred to above reflect the cumulative impact of differences between actual gross profits for the period and the previously estimated expected gross profits for the period, as well as an update for current and future expected claims costs associated with the guaranteed minimum death and income benefit features of our variable annuity products. To the extent each period s actual experience differs from the previous estimate for that period, the assumed level of total gross profits may change, and a cumulative adjustment to previous periods costs, referred to as an adjustment for current period experience, may be required. Adjusted operating income for 2008 includes charges of $174 million relating to these quarterly adjustments, due to less favorable than expected experience, while 2007 includes benefits of $53 million due to better than expected experience. The adjustments for deferred policy acquisition and other costs totaled $81 million in 2008 and resulted from less favorable than expected gross profits, due primarily to lower than expected fee income and the unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features. In addition to these drivers, the adjustments for the reserves for the guaranteed minimum death and income benefit features of our variable annuity products in 2008, which totaled $93 million, also reflected higher actual contract guarantee claims costs in 2008, primarily driven by financial market conditions.

During the fourth quarter of 2008, we impaired the entire $97 million of goodwill related to our acquisition of the variable annuity business of Allstate. This impairment is reflective of continued deterioration of financial market conditions, which resulted in additional market depreciation within our separate account assets and corresponding decreases in our fee income and overall expected future earnings for our individual annuities business. See Accounting Policies & Pronouncements Application of Critical Accounting Estimates Goodwill for further discussion of the assumptions and methodologies used to determine the goodwill impairment.

Revenues

2009 to 2008 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased $872 million, from $1,999 million in 2008 to $2,871 million in 2009. Policy charges and fees and asset management fees and other income increased $669 million, including a $974 million favorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features, as discussed above. This favorable variance was partially offset by $180 million of mark-to-market losses related to derivative positions associated with our capital hedging program, as discussed above, as well as a decrease in fee income driven by lower average variable annuity asset balances invested in separate accounts. The decline in average separate account asset balances was due to net market depreciation and the transfer of balances to fixed income investments backed by our general account relating to an automatic rebalancing element in some of our optional living benefit features. In addition, net investment income increased $179 million, reflecting higher average annuity account values in investments backed by our general account, also resulting from these transfers.

2008 to 2007 Annual Comparison. Revenues decreased $504 million, from $2,503 million in 2007 to $1,999 million in 2008. Policy charges and fees and asset management fees and other income decreased $718 million, including a $481 million unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features, as discussed above. Also contributing to the decrease in policy charges and fees and asset management fees and other income is a decrease in fee income

driven by lower average variable annuity asset balances invested in separate accounts due to market depreciation and the transfer of balances to fixed income investments backed by our general account relating to an automatic rebalancing element in some of our living benefit features, as discussed above. Partially offsetting this decrease, net investment income increased $220 million reflecting higher average annuity account values in investments backed by our general account, also resulting from these transfers.

Benefits and Expenses

2009 to 2008 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, decreased $908 million, from $3,076 million in 2008 to $2,168 million in 2009. Absent the net $1,713 million impact related to the adjustments to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products and to our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs and the $661 million increase in the amortization of deferred policy acquisition and other costs due to the favorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features discussed above, which account for a decrease in benefits and expenses of $1,052 million, benefits and expenses increased $144 million. On this basis, interest credited to policyholders account balances increased $130 million primarily reflecting higher average annuity account values in investments backed by our general account, resulting from transfers relating to an automatic rebalancing element in some of our living benefit features, and higher amortization of deferred sales inducements, reflecting the higher rate of amortization applied to gross profits in calculating amortization for 2009, due to the negative market performance adjustments recognized during 2008. Also on this basis, policyholders benefits, including changes in reserves, increased $129 million primarily reflecting higher actual and expected contract guarantee claims costs related to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products. The amortization of deferred policy acquisition costs increased $83 million on this basis, also reflecting the higher rate of amortization for 2009, as discussed above. Partially offsetting these increases was a $153 million decrease in general and administrative expenses, net of capitalization, absent the effect of the items mentioned above, and a $45 million decrease in interest expense. The decrease in general and administrative expenses, net of capitalization, on this basis, reflects a favorable variance related to the $97 million goodwill impairment recognized in 2008, and lower amortization of VOBA subsequent to the complete impairment in the first quarter of 2009 of balances related to the variable annuity contracts acquired from Allstate, as discussed above. The decrease in interest expense reflects paydowns of inter-company debt, which were funded with affiliated capital contributions.

2008 to 2007 Annual Comparison. Benefits and expenses increased $1,295 million, from $1,781 million in 2007 to $3,076 million in 2008. Absent the impact of the annual reviews and the market performance adjustments discussed above, which account for $1,190 million of the increase, benefits and expenses increased $105 million. On this basis, policyholders benefits, including changes in reserves, increased $110 million primarily reflecting the impact of the quarterly adjustments for current period experience relating to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products, as discussed above. Also on this basis, interest credited to policyholders account balances increased $100 million primarily reflecting higher average annuity account values in investments backed by our general account resulting from transfers relating to an automatic rebalancing element in some of our living benefit features. In addition, general and administrative expenses, net of capitalization, for 2008 includes the $97 million goodwill impairment. Partially offsetting these increases was a decrease in the amortization of deferred policy acquisition and other costs, absent the effect of the annual reviews and market performance adjustments discussed above, primarily reflecting the impact on gross profits of the unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with some of our living benefit features and the decrease in fee income, partially offset by the quarterly adjustments for current period experience relating to the amortization of deferred policy acquisition and other costs.

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Account Values

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

	Year ended December 31,		
	2009	2008	2007
		(in millions)	
Variable Annuities(1):			
Beginning total account value	$ 60,007	$ 80,330	$ 74,555
Sales	16,117	10,208	11,678
Surrenders and withdrawals	(5,776)	(8,000)	(9,568)
Net sales	10,341	2,208	2,110
Benefit Payments	(988)	(1,057)	(1,131)
Net flows	9,353	1,151	979
Change in market value, interest credited and other activity(2)	12,220	(20,353)	6,076
Policy charges	(1,061)	(1,121)	(1,280)
Ending total account value(3)	$ 80,519	$ 60,007	$ 80,330
Fixed Annuities:			
Beginning total account value	$ 3,295	$ 3,488	$ 3,748
Sales	179	121	73
Surrenders and withdrawals	(258)	(276)	(286)
Net redemptions	(79)	(155)	(213)
Benefit Payments	(160)	(160)	(167)
Net flows	(239)	(315)	(380)
Interest credited and other activity(2)	397	127	124
Policy charges	(1)	(5)	(4)
Ending total account value	$ 3,452	$ 3,295	$ 3,488

(1) Variable annuities include only those sold as retail investment products. Investments sold through defined contribution plan products are included with such products within the Retirement segment.
(2) Includes cumulative reclassification of $259 million in 2009 from variable annuity to fixed annuity account values to conform presentation of certain contracts in annuitization status.
(3) As of December 31, 2009, variable annuity account values are invested in balanced funds ($30 billion or 37%), equity funds ($27 billion or 33%), market value adjusted or fixed rate options ($11 billion or 14%), bond funds ($9 billion or 11%), and other ($4 billion or 5%).

2009 to 2008 Annual Comparison. Total account values for fixed and variable annuities amounted to $84.0 billion as of December 31, 2009, an increase of $20.7 billion from December 31, 2008. The increase came primarily from increases in the market value of customers variable annuities due to equity market appreciation and from positive variable annuity net flows. Individual variable annuity gross sales increased by $5.9 billion, from $10.2 billion in 2008 to $16.1 billion in 2009. The increase reflects a benefit from the impact of market disruptions on some of our competitors, certain of which implemented product modifications to increase pricing and scale back product features in the second and third quarters of 2009. We also experienced increased sales in the third quarter of 2009 related to certain optional living benefit features which we previously announced would be discontinued during the third quarter of 2009. Positive sales momentum continued into the fourth quarter of 2009 with our modified product offering, which we expect will remain competitively positioned relative to our competitors going forward and expect will provide us an attractive risk and profitability profile, as all currently-offered optional living benefit features include the automatic rebalancing element described below. Individual variable annuity surrenders and withdrawals decreased by $2.2 billion, from $8.0 billion in 2008 to $5.8 billion in 2009, reflecting the overall impact of lower account values in the first half of the year due to market depreciation and lower lapses for policies where the current policyholder account value is below the guaranteed minimum death or living benefit value.

2008 to 2007 Annual Comparison. Total account values for fixed and variable annuities amounted to $63.3 billion as of December 31, 2008, a decrease of $20.5 billion from December 31, 2007. The decrease came primarily from decreases in the market value of customers variable annuities due to significant equity market declines. Individual variable annuity gross sales decreased by $1.5 billion, from $11.7 billion in 2007 to $10.2 billion in 2008 and individual variable annuity surrenders and withdrawals decreased by $1.6 billion, from $9.6 billion in 2007 to $8.0 billion in 2008, reflecting the decrease in both inflows and outflows which generally occurs during periods of market volatility and equity market decline. The decrease in individual variable annuity surrenders and withdrawals also reflects lower lapses for policies where the current policyholder account value is below the guaranteed minimum death benefit.

Variable Annuity Net Amount at Risk

As a result of the volatility and disruption in the global financial markets, in recent years we have seen significant increases in the net amounts at risk embedded in our variable annuity products with riders that include optional living and guaranteed minimum death benefit features. The net amount at risk is generally defined as the present value of the guaranteed minimum benefit amount in excess of the contractholder s current account balance. As part of our risk management strategy we hedge or limit our exposure to certain of the risks associated with our variable annuity products, primarily through a combination of product design elements, such as an automatic rebalancing element, and externally purchased hedging instruments. The rate of return we realize from our variable annuity contracts can vary by contract based on our risk management strategy, including the impact on any capital markets risks that we hedge, and the impact on that portion of our variable annuity contracts that benefit from the automatic rebalancing element.

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

Variable annuity account values with living benefit features were $52.5 billion, $33.1 billion and $37.1 billion as of December 31, 2009, 2008 and 2007, respectively. The following table sets forth the account values and net amounts at risk of our variable annuities with living benefit features split between those that include an automatic rebalancing element and those that do not, as of the dates indicated.

	December 31, 2009		December 31, 2008		December 31, 2007	
	Account Value	Net Amount at Risk	Account Value	Net Amount at Risk	Account Value	Net Amount at Risk
			(in millions)			
Automatic rebalancing element(1)	$ 34,901	$ 1,061	$ 17,653	$ 1,328	$ 13,837	$ 101
No automatic rebalancing element	17,570	2,785	15,401	4,973	23,329	644
Total variable annuity account values with living benefit features	$ 52,471	$ 3,846	$ 33,054	$ 6,301	$ 37,166	$ 745

(1) As of December 31, 2009, 2008 and 2007, asset values that have rebalanced to fixed income investments backed by our general account or a separate account bond portfolio due to the automatic rebalancing element represent 23% or $8.2 billion of the $34.9 billion total account value, 78% or $13.8 billion of the $17.7 billion total account value, and 4% or $0.5 billion of the $13.8 billion total account value, respectively.

As of December 31, 2009 approximately 67% of variable annuity account values with living benefit features included an automatic rebalancing element in the product design, compared to 53% and 37% as of December 31, 2008 and 2007, respectively. As of December 31, 2009 approximately 28% of the net amount at risk associated

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with variable annuity account values with living benefit features included an automatic rebalancing element in the product design, compared to 21% and 14% as of December 31, 2008 and 2007, respectively. The increase in account values which include an automatic rebalancing element in 2009 reflects the impact of improving market conditions as well as sales of our latest product offerings, as discussed above. Improving market conditions also drove the decline in the net amount at risk in 2009.

Our guaranteed minimum death benefits guarantee a minimum return on the contract value or an enhanced value, if applicable, to be used solely for purposes of determining benefits payable in the event of death. All of the $52.5 billion, $33.1 billion and $37.1 billion of variable annuity account values with living benefit features as of December 31, 2009, 2008 and 2007, respectively, also contain guaranteed minimum death benefits. An additional $24.4 billion, $23.3 billion and $38.0 billion of variable annuity account values, respectively, contain guaranteed minimum death benefits, but no living benefit features. Certain account values with guaranteed minimum death benefits are affected by an automatic rebalancing element because the contractholder selected a living benefit feature which includes an automatic rebalancing element. The following table sets forth the account values and net amounts at risk of our variable annuities with guaranteed minimum death benefits split between those that are affected by an automatic rebalancing element and those that are not, as of the dates indicated.

	December 31, 2009		December 31, 2008		December 31, 2007	
	Account Value	Net Amount at Risk	Account Value	Net Amount at Risk	Account Value	Net Amount at Risk
			(in millions)			
Automatic rebalancing element	$ 34,901	$ 800	$ 17,653	$ 1,698	$ 13,837	$ 95
No automatic rebalancing element	41,975	7,798	38,733	14,404	61,352	3,364
Total variable annuity account values with death benefit features	$ 76,876	$ 8,598	$ 56,386	$ 16,102	$ 75,189	$ 3,459

As of December 31, 2009 approximately 45% of variable annuity account values with guaranteed minimum death benefits were affected by an automatic rebalancing element because the contractholder selected a living benefit feature which includes an automatic rebalancing element, compared to 31% and 18% as of December 31, 2008 and 2007, respectively. As of December 31, 2009 approximately 9% of the net amount at risk associated with variable annuity account values with guaranteed minimum death benefits were affected by an automatic rebalancing element in the product design, compared to 11% and 3% as of December 31, 2008 and 2007, respectively.

Retirement

Operating Results

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

	Year ended December 31,		
	2009	2008	2007
		(in millions)	
Operating results:			
Revenues	$ 4,676	$ 4,844	$ 4,708
Benefits and expenses	4,166	4,313	4,226

Adjusted operating income	510	531	482
Realized investment gains (losses), net, and related adjustments(1)	(842)	(1,076)	(128)
Related charges(2)	6	7	(1)
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	1,533	(1,364)	97
Change in experience-rated contractholder liabilities due to asset value changes(4)	(831)	793	(86)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 376	$ (1,109)	$ 364

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

On December 31, 2007 we acquired a portion of Union Bank of California, N.A. s, or UBOC s, retirement business, including $7.3 billion in full service retirement account values, for $103 million of cash consideration. The retirement account values related to this acquisition primarily consist of mutual funds and other client assets we administer, and are not reported on our balance sheet. The integration of this business was completed in the second quarter of 2008.

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

Adjusted Operating Income

2009 to 2008 Annual Comparison. Adjusted operating income decreased $21 million, from $531 million in 2008 to $510 million in 2009. Results for both periods include the impact of an annual review of the assumptions used in our estimate of total gross profits used as a basis for amortizing deferred policy acquisition costs and valuation of business acquired, as well as the impact of our quarterly adjustments to total gross profits for current period experience. Adjusted operating income for 2009 included a $3 million charge from the annual review, compared to a $21 million charge in 2008. The charge in 2008 primarily reflected a decrease in our estimate of future gross profits, including a decline in our asset-based profit assumptions and an increase in our expense assumptions. The quarterly updates for actual experience resulted in $5 million of charges in 2009 and $23 million of benefits in 2008, reflecting the cumulative impact on amortization of differences between actual gross profits for the period and the previously estimated expected gross profits for the period. In addition, 2008 included a $29 million benefit from a reduction in the amortization of valuation of business acquired due to a cumulative adjustment relating to the calculation of actual and expected gross profits. Together, these items resulted in a net charge of $8 million in 2009 and a net benefit of $31 million in 2008.

Excluding the items discussed above, adjusted operating income increased $18 million compared to 2008, reflecting higher results in our full service business, partially offset by a decrease in adjusted operating income for our institutional investment products business. The increase in our full service business was primarily related to improved investment results, driven by higher net yields due to the impact of lower crediting rates on general account liabilities, resulting from rate resets, as well as higher average invested assets in our general account reflecting full service participant transfers from our equity based separate account and mutual fund products to our general account stable value products. Our ability to maintain current net yields, which are impacted by the levels of interest rates, the pace and extent of changes in interest rates and the minimum guaranteed crediting rates on our general account stable value products, may affect investment results in future periods. Also contributing to the increase in the full service business was a $29 million favorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with guaranteed minimum withdrawal benefits associated with certain defined contribution accounts, reflecting a benefit of $12 million in 2009 and a charge of $17 million in 2008. The benefit in 2009 was driven by the impact of a reduction in equity market volatility on these benefit features. The charge in 2008 was driven by the impact of changes in equity market prices and volatility on these benefit features, prior to the implementation of our hedging of equity market price risk during the fourth quarter of 2008. Serving as a partial offset to these increases was lower asset based fees, due to a decrease in average full service fee-based retirement account values, primarily resulting from equity market depreciation and full service participant transfers from our equity based separate account and

mutual fund products to our general account stable value products, as well as fee concessions made to certain existing clients. Although account value declines in 2008 and early 2009 due to equity market depreciation were partially offset by recent large plan sales, in some instances these cases provide for more limited product offerings than existing business, and consequently a lower contribution to asset based fees.

The decrease in our institutional investment products business primarily reflects a less favorable benefit from reserve refinements of $44 million, primarily due to a smaller benefit in 2009 related to updates of client census data on our group annuity blocks of business, as well as less favorable case experience related to our group annuity blocks of business. Partially offsetting this decrease was improved investment results and a favorable variance in the mark-to-market of equity investments required in certain of our separate account products. The increase in investment results was primarily due to increased net settlements on interest rate swaps used to manage the duration of the investment portfolio, and the impact of the maturity of a single large guaranteed investment contract which had an interest crediting rate substantially in excess of our general account invested asset yield. The increase in net swap settlements resulted from a higher notional amount of swaps used to manage the duration of the investment portfolio and the generally favorable impact of lower interest rates on those swaps. As we continued to manage the duration gap between assets and liabilities within our risk management framework, the use of interest rate swaps to increase the duration of the investment portfolio grew in 2009 as the duration of the investment portfolio excluding the impact of swaps declined. The investment portfolio duration has generally declined relative to the liabilities as a result of purchases of fixed income securities with shorter duration than the duration of our liabilities and higher levels of short term investments discussed below. Partially offsetting these increases in investment results was a lower benefit from the accretion into net investment income of fixed maturity other-than-temporary impairments recognized in previous periods. Such accretion did not contribute to results for 2009 due to our adoption of new authoritative guidance related to fixed maturity other-than-temporary impairments on January 1, 2009. Also serving as partial offsets were a lower base of invested assets in our general account reflecting scheduled withdrawals of our guaranteed investment products and lower yields, including the impact of declining short-term interest rates and a higher balance of investments in lower yielding assets, such as cash and short-term investments, for liquidity purposes. Higher levels of short-term liquidity have been maintained in 2009 to provide additional capacity to address changing cash needs during the current market conditions. Investment results in future periods may be negatively impacted if we are unable to replace maturities of guaranteed investment products with new additions. For further discussion of our sales, see Sales results and account values.

2008 to 2007 Annual Comparison. Adjusted operating income for the Retirement segment increased $49 million, from $482 million in 2007 to $531 million in 2008. Included within adjusted operating income in 2007 is an $82 million charge reflecting payments made to plan clients related to a legal action filed against an unaffiliated asset manager, State Street Global Advisors, Inc., or SSgA. This action seeks, among other relief, restitution of certain losses experienced by plan clients attributable to certain investment funds managed by SSgA as to which we believe SSgA employed investment strategies and practices that were misrepresented by SSgA and failed to exercise the standard of care of a prudent investment manager. In order to protect the interests of the affected plans and their participants while we pursue these remedies, we have made payments to affected plan clients that authorize us to proceed on their behalf. In addition, adjusted operating income for 2008 includes a $29 million benefit from a reduction in the amortization of valuation of business acquired due to a cumulative adjustment relating to the calculation of actual and expected gross profits.

Excluding the items discussed above, adjusted operating income for 2008 decreased $62 million compared to 2007, reflecting lower adjusted operating income in our full service business, partially offset by improved results for our institutional investment products business. The decrease relating to the full service business was primarily attributable to higher general and administrative expenses, driven by expenses incurred to expand our product and service capabilities and to support several large client sales in 2008, and lower asset management fees, driven by a decrease in average full service fee-based retirement account values primarily resulting from equity market depreciation. Also contributing to the decrease in the full service business was a $15 million unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with guaranteed minimum withdrawal benefits associated with certain defined contribution accounts. This unfavorable variance includes the impact of 2008 changes in equity market prices and volatility on these benefit features, prior to the implementation of our hedging of equity market price risk during the fourth quarter of 2008. In addition, adjusted operating income for 2008 includes an $8 million loss relating to the acquired retirement business of UBOC. Results from this acquisition include costs related to an interim service agreement with

UBOC, which covered the integration period, as well as $6 million of transition costs. Improved results in our institutional investment products business were driven by a greater benefit from reserve refinements of $50 million, primarily reflecting updates of client census data on our group annuity blocks of business, as well as more favorable case experience related to our group annuity blocks of business. Partially offsetting these increases was an unfavorable variance in the mark-to-market of equity investments required in certain of our separate account products.

Revenues

2009 to 2008 Annual Comparison. Revenues, as shown in the table above under Operating Results, decreased $168 million, from $4,844 million in 2008 to $4,676 million in 2009. Net investment income decreased $255 million, primarily reflecting lower portfolio yields, including lower interest rates on floating rate investments due to rate resets and the impact of a higher balance of investments in lower yielding assets, such as cash and short-term investments, for liquidity purposes, as discussed above. Also contributing to the decline in net investment income was a smaller base of invested assets related to our guaranteed investment products, due to maturities, and a lower benefit from the accretion into net investment income of fixed maturity other-than-temporary impairments recognized in previous periods, as discussed above. Partially offsetting these declines were increases in net investment income from a larger base of invested assets in our full service business, primarily driven by participant transfers from our equity based separate account and mutual fund products to our general account stable value products, and a favorable variance in the mark-to-market of equity investments required in certain of our separate account products.

Partially offsetting the decline in net investment income was a $75 million increase in policy charges and fee income and asset management fees and other income, primarily relating to higher net settlements on interest rate swaps used to manage the duration of the investment portfolio, as discussed above. Also contributing to the increase was a $35 million increase in revenues associated with the acquired operations of MullinTBG and a $29 million favorable variance in the mark-to-market of embedded derivatives and derivative hedge positions related to the guaranteed minimum withdrawal benefits associated with certain defined contribution accounts. Partially offsetting these increases in policy charges and fee income and asset management fees and other income was a decline in asset based fees in our full service business driven by a decrease in average full service fee-based retirement account values, primarily resulting from equity market depreciation and full service participant transfers from our equity based separate account and mutual fund products to our general account stable value products, as well as fee concessions made to certain existing clients, partially offset by recent large plan sales, as discussed above. In addition, premiums increased $12 million, driven by higher life-contingent structured settlement sales, partially offset by lower single premium group annuity sales, which resulted in a corresponding increase in policyholders benefits, including the change in policy reserves, as discussed below.

2008 to 2007 Annual Comparison. Revenues increased $136 million, from $4,708 million in 2007 to $4,844 million in 2008. Premiums increased $261 million, driven by higher life-contingent structured settlement and single premium group annuity sales, and resulted in a corresponding increase in policyholders benefits, including the change in policy reserves, as discussed below. Partially offsetting this increase, net investment income decreased $112 million, primarily reflecting lower portfolio yields, including lower interest rates on floating rate investments due to rate resets, lower balances of investments supported by borrowings, negative earnings in 2008 relating to a single equity method investment in a fixed income fund and an unfavorable variance in the mark-to-market of equity investments required in certain of our separate account products. These items, resulting in a decrease to net investment income, were partially offset by a larger base of invested assets, driven by sales of guaranteed investment and structured settlement products in the institutional and retail markets and full service participant transfers from our equity based separate account and mutual fund products to our general account stable value products, and the accretion into net investment income in 2008 of $23 million relating to fixed maturity other-than-temporary impairments recognized in previous periods.

In addition, policy charges and fee income and asset management fees and other income decreased $13 million, primarily due to a decline in asset management fees, driven by a decrease in average full service fee-based retirement account values primarily resulting from equity market depreciation, as well as full service participant transfers from our equity based separate account and mutual fund products to our general account stable value products. Also contributing to the decline was an unfavorable variance in the mark-to-market of

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embedded derivatives and related hedge positions associated with the guaranteed minimum withdrawal benefits associated with certain defined contribution accounts, driven by financial market conditions in 2008. Partially offsetting these decreases in policy charges and fee income and asset management fees and other income was $22 million of revenues associated with the acquired retirement business of UBOC and $12 million of revenues associated with the acquired operations of MullinTBG, as well as increased net settlements on interest rate swaps used to manage the duration of the investment portfolio.

Benefits and Expenses

2009 to 2008 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, decreased $147 million, from $4,313 million in 2008 to $4,166 million in 2009. Absent the impact of the annual reviews and other adjustments to the amortization of deferred policy acquisition costs and valuation of business acquired discussed above, which account for a $39 million increase, benefits and expenses decreased $186 million. Interest credited to policyholders account balances decreased $237 million, primarily reflecting lower crediting rates on floating rate guaranteed investment products, the impact of maturities within our guaranteed investment products and lower crediting rates on full service stable value product liabilities due to rate resets, partially offset by the impact of higher full service general account stable value product account values due to participant transfers from equity based separate account and mutual fund products. In addition, interest expense decreased $60 million, reflecting lower interest rates and lower borrowings used to support investments. Partially offsetting these decreases, policyholders benefits, including the change in policy reserves, increased $59 million, primarily reflecting a less favorable benefit from reserve refinements, as discussed above, and the increase in reserves associated with the increase in premiums discussed above, partially offset by lower interest on lower general account policy reserves. General and administrative expenses, net of capitalization, increased $54 million excluding the impact of the annual reviews and other adjustments mentioned above, driven by a $39 million increase in costs related to the acquired operations of MullinTBG, as well as expenses incurred to support several large client sales, partially offset by the absence of the costs of an interim service agreement relating to the retirement business acquired from Union Bank of California, N.A. and a $12 million charge for one-time costs associated with certain cost reduction programs, which were included in 2008.

2008 to 2007 Annual Comparison. Benefits and expenses increased $87 million, from $4,226 million in 2007 to $4,313 million in 2008. Policyholders benefits, including the change in policy reserves, increased $176 million primarily reflecting the increase in reserves associated with the increase in premiums on higher life-contingent structured settlement and single premium group annuity sales discussed above, partially offset by an increased benefit from reserve refinements primarily reflecting updates of client census data on our group annuity blocks of business, more favorable case experience related to our group annuity blocks of business and lower interest on general account reserves. In addition, interest credited to policyholders account balances increased $71 million, primarily reflecting a greater base of guaranteed investment products sold in the institutional and retail markets and higher full service general account stable value product account values due to participant transfers from equity based separate account and mutual fund products, partially offset by lower crediting rates on floating rate guaranteed investment product liabilities due to rate resets. Partially offsetting these increases was a $123 million decrease in interest expense, primarily reflecting lower borrowings used to support investments and lower interest rates on these borrowings. Also serving as a partial offset, general and administrative expenses, net of capitalization, decreased $43 million, including the impact of the $82 million charge in 2007 related to payments made to plan clients associated with a legal action filed against an unaffiliated asset manager and the $29 million benefit in 2008 from a cumulative adjustment relating to valuation of business acquired discussed above. Excluding these items, general and administrative expenses, net of capitalization increased $68 million, driven by expenses incurred to expand our full service product and service capabilities, including costs associated with the acquired retirement business of UBOC and acquired operations of MullinTBG, expenses incurred to support several large client sales in 2008 and a $12 million charge in 2008 for one-time costs associated with certain cost reduction programs. General and administrative expenses, net of capitalization, includes $30 million of costs in 2008 associated with the acquired retirement business of UBOC, including costs related to an interim services agreement with UBOC, which covered the integration period, as well as $6 million of transition costs, and $13 million of costs related to the operations of MullinTBG.

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Sales Results and Account Values

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

	Year ended December 31,		
	2009	**2008**	**2007**
		(in millions)	
Full Service(1):			
Beginning total account value	$ 99,738	$ 112,192	$ 97,430
Deposits and sales	23,188	18,941	14,692
Withdrawals and benefits	(14,438)	(15,051)	(13,749)
Change in market value, interest credited and interest income(2)	17,857	(25,259)	6,563
Acquisition(3)		8,915	7,256
Ending total account value	$ 126,345	$ 99,738	$ 112,192
Net additions (withdrawals)	$ 8,750	$ 3,890	$ 943
Institutional Investment Products(4):			
Beginning total account value	$ 50,491	$ 51,591	$ 50,269
Additions(5)	7,786	5,738	4,973
Withdrawals and benefits(6)	(7,817)	(7,392)	(5,866)
Change in market value, interest credited and interest income	2,287	2,198	2,765
Other(7)	(839)	(1,644)	(550)
Ending total account value	$ 51,908	$ 50,491	$ 51,591
Net additions (withdrawals)	$ (31)	$ (1,654)	$ (893)

(1) Ending total account value for the full service business includes assets of Prudential s retirement plan of $5.4 billion, $4.6 billion and $5.7 billion as of December 31, 2009, 2008 and 2007, respectively.

(2) Change in market value, interest credited and interest income includes $511 million for 2007 representing a transfer from Institutional Investment Products to Full Service as a result of one client s change in contract form.

(3) On December 31, 2007 we acquired a portion of UBOC s retirement business, as discussed above. On October 10, 2008 we acquired MullinTBG, as discussed above.

(4) Ending total account value for the institutional investment products business includes assets of Prudential s retirement plan of $5.2 billion, $5.3 billion and $5.5 billion as of December 31, 2009, 2008 and 2007, respectively. Ending total account value for the institutional investments products business also includes $1.5 billion as of December 31, 2009 related to collateralized funding agreements issued to the Federal Home Loan Bank of New York (FHLBNY), and $1.8 billion, $3.5 billion and $2.9 billion as of December 31, 2009, 2008 and 2007, respectively, related to affiliated funding agreements issued using the proceeds from the sale of Prudential Financial retail medium-term notes. For additional information regarding the FHLBNY and the retail medium-term notes program see, Liquidity and Capital Resources.

(5) Additions includes $500 million and $700 million for 2009 and 2008, respectively, representing transfers of externally managed client balances to accounts we manage. These additions are offset within Other, as there is no net impact on ending account values for this transfer.

(6) Withdrawals and benefits includes $(488) million for 2009 representing transfers of client balances from accounts we managed to externally managed accounts. This withdrawal is offset within Other, as there is no net impact on ending account values for this transfer.

(7) Other includes transfers from (to) the Asset Management segment of $(11) million, $432 million and $185 million for 2009, 2008, and 2007 respectively. Other also includes $(511) million for 2007 representing a transfer from Institutional Investment Products to Full Service as a result of one client s change in contract form. Other also includes $(12) million and $(700) million in 2009 and 2008, respectively, representing net transfers of externally managed client balances to accounts we manage. These transfers are offset within Additions or Withdrawals and benefits, as there is no net impact on ending account values for this transfer. For 2009, Other also includes $1,500 million representing collateralized funding agreements issued to the FHLBNY and $(1,522) million representing terminations of affiliated funding agreements utilizing proceeds from the issuances to FHLBNY. Remaining amounts for all periods presented primarily represent changes in asset balances for externally managed accounts.

2009 to 2008 Annual Comparison. Account values in our full service business amounted to $126.3 billion as of December 31, 2009, an increase of $26.6 billion from December 31, 2008. The increase in account values was primarily driven by an increase in the market value of customer funds due to equity market appreciation and, to a lesser extent, by net additions. Net additions increased $4.9 billion, from $3.9 billion in 2008 to $8.8 billion

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in 2009, primarily reflecting higher new plan sales and, to a lesser extent, lower plan lapses. New plan sales in 2009 included twelve client sales over $100 million, totaling $7.5 billion, compared to ten clients sale over $100 million in 2008, which totaled $4.5 billion.

Account values in our institutional investment products business amounted to $51.9 billion as of December 31, 2009, an increase of $1.4 billion from December 31, 2008. The increase in account values was primarily driven by increases in the market value of customer funds, primarily from interest credited on general account business and credit spread tightening in the fixed income markets, partially offset by net outflows from externally managed accounts. Net withdrawals decreased $1.6 billion, from $1,654 million in 2008 to $31 million in 2009. This decrease primarily reflects higher sales of investment-only, fee-based stable value products, which more than offset lower sales of guaranteed investment products in the institutional and retail markets. Sales of our retail notes and institutional notes have been negatively impacted by unfavorable capital markets conditions, in particular during the second half of 2008 and through 2009, reflecting the extreme stress experienced by global financial markets from the second half of 2007 through the early portion of 2009. Rating agency downgrades to the claims-paying ratings of our insurance companies in the first quarter of 2009 could also have an adverse impact on sales of our guaranteed investment products in future periods.

2008 to 2007 Annual Comparison. Account values in our full service business amounted to $99.7 billion as of December 31, 2008, a decrease of $12.5 billion from December 31, 2007. The decrease in account values was driven primarily by a decrease in the market value of customer funds due to declines in the equity markets, partially offset by $8.9 billion of account values related to the acquisition of MullinTBG and net additions of $3.9 billion. Net additions increased $2.947 billion, from $943 million in 2007 to $3.890 billion in 2008, reflecting higher new plan sales and participant contributions, partially offset by higher plan lapses. New plan sales in 2008 included ten large client sales totaling $4.5 billion, with each client sale therein totaling more than $100 million. Plan lapses in 2008 included $1.1 billion of lapses relating to account values acquired from UBOC. These lapses primarily occurred during the final stages of the conversion of acquired account values to our systems platform, which was completed in the second quarter of 2008.

Account values in our institutional investment products business amounted to $50.5 billion as of December 31, 2008, a decrease of $1.1 billion from December 31, 2007, primarily reflecting net withdrawals of $1.7 billion, driven by the impact of scheduled withdrawals in our guaranteed investment products, and declines in the value of asset balances for externally managed accounts. Interest on general account business partially offset these decreases. Net withdrawals increased $761 million, from net withdrawals of $893 million in 2007 to net withdrawals of $1.654 billion in 2008. This increase primarily reflects higher scheduled withdrawals in our guaranteed investment products, partially offset by higher additions due to the 2008 transfers of externally managed client balances to accounts we manage. Sales of our guaranteed investment products in the institutional and retail markets have been negatively impacted by unfavorable capital markets conditions, in particular during the second half of 2008 as the stress experienced by global financial markets that began in the second half of 2007 continued and substantially increased.

Asset Management

Operating Results

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

	Year ended December 31,		
	2009	2008	2007
	(in millions)		
Operating results:			

Revenues	$ 1,257	$ 1,686	$ 2,319
Expenses	1,202	1,454	1,618
Adjusted operating income	55	232	701
Realized investment gains (losses), net, and related adjustments(1)	(32)	40	19
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(2)	(14)	28	63
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 9	$ 300	$ 783

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.
(2) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis on an after-tax basis as a separate line in our Consolidated Statements of Operations. Earnings attributable to noncontrolling interests are excluded from adjusted operating income but included in income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis as a separate line in our Consolidated Statements of Operations. Earnings attributable to noncontrolling interests represent the portion of earnings from consolidated entities that relate to the equity interests of minority investors.

Adjusted Operating Income

2009 to 2008 Annual Comparison. Adjusted operating income decreased $177 million, from $232 million in 2008 to $55 million in 2009. Results of the segment s commercial mortgage activities decreased reflecting higher credit and valuation-related charges of $177 million on interim loans. Due to market conditions and the inherent risk of these loans, the underwriting of new interim loans was suspended during the third quarter of 2008. As of December 31, 2009, the principal balance of interim loans outstanding totaled $1.7 billion, which excludes $86 million of commitments for future fundings that would need to be disbursed if the borrowers met the conditions for these fundings, as well as $59 million of commercial real estate held for sale related to foreclosed interim loans. As of December 31, 2009, these interim loans outstanding had a weighted average loan-to-value ratio of 112%, indicating that, in aggregate, the loan amount is greater than the collateral value. As of December 31, 2009, for those loans where the loan amount is greater than the collateral value, the excess of the loan amount over the collateral value is $264 million. The interim loans had a weighted average debt service coverage ratio of 1.16 times. A stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. These loans also had an allowance for losses or credit related market value losses totaling $236 million as of December 31, 2009. Results in 2009 also reflect lower transaction and performance based incentive fees, primarily related to institutional real estate funds reflecting a decline in real estate values, as well as a decrease in asset management fees primarily from retail and institutional customer assets primarily as a result of lower average asset values. In addition, results for 2009 reflect lower income related to mutual fund service fees and securities lending activities.

The decrease in adjusted operating income was partially offset by more favorable results from the segment s proprietary investing activities which increased $137 million, from a loss of $207 million in 2008 to a loss of $70 million in 2009, primarily within proprietary investing fixed income investments. Results reflect a reduction of losses in a fixed income fund which included losses of $172 million in 2008, compared to losses of $11 million in 2009. The Asset Management segment redeemed its entire investment in the fixed income fund as of June 30, 2009. Fixed income investment results in 2008 also included impairments of $40 million on collateralized debt obligations, which as of December 31, 2009 have an amortized cost of zero. Proprietary investing results for equity investments increased $33 million reflecting losses in 2008, compared to gains in 2009. In 2009, we exited several of these equity investment funds. These increases were partially offset by real estate proprietary investing which decreased $93 million primarily reflecting the impact of lower real estate values on co-investments. Also, results for 2009 reflect a decrease in expenses largely related to compensation.

2008 to 2007 Annual Comparison. Adjusted operating income decreased $469 million, from $701 million in 2007 to $232 million in 2008. The decrease in adjusted operating income is largely attributable to unfavorable results from the segment s proprietary investing business. Results of the segment s proprietary investing business decreased $352 million, primarily due to a decline in the value of fixed income investments of $274 million, including impairments on collateralized debt obligations of $40 million. The decrease in fixed income investments includes a decline of $237 million in a fixed income fund, from income of $65 million in 2007, to a loss of $172 million in 2008. In the fourth quarter of 2008, two entities within the Asset Management segment made a request to redeem their entire investment from this fixed income fund, which aggregate investments were $185 million at December 31, 2008. We also reduced certain equity investments in the fourth quarter of 2008. Also contributing to the decline in proprietary investing results were losses on equity investments of $22 million in 2008, a decrease of $46 million from 2007. In addition, real estate proprietary investing decreased $31 million, primarily from co-investments, reflecting a decline in real estate values.

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Results in 2008 also reflect lower performance based incentive fees, primarily related to institutional real estate funds, in addition to higher expenses. These decreases were partially offset by increased asset management fees primarily from institutional customer assets as a result of net asset flows, as well as higher income related to securities lending activities.

Revenues

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

	Year ended December 31,		
	2009	**2008**	**2007**
		(in millions)	
Revenues by type:			
Asset management fees by source:			
Institutional customers	$ 511	$ 540	$ 488
Retail customers(1)	268	307	347
General account	270	268	246
Total asset management fees	1,049	1,115	1,081
Incentive fees	49	71	188
Transaction fees	27	76	92
Proprietary investing	(41)	(128)	204
Commercial mortgage(2)	(99)	31	76
Total incentive, transaction, proprietary investing and commercial mortgage revenues	(64)	50	560
Service, distribution and other revenues(3)	272	521	678
Total revenues	$ 1,257	$ 1,686	$ 2,319

(1) Consists of individual mutual funds and both variable annuities and variable life insurance asset management revenues from our separate accounts. This also includes funds invested in proprietary mutual funds through our defined contribution plan products. Revenues from fixed annuities and the fixed rate options of both variable annuities and variable life insurance are included in the general account.
(2) Includes mortgage origination and spread lending revenues of our commercial mortgage origination and servicing business.
(3) Includes payments from Wells Fargo under an agreement dated as of July 30, 2004 implementing arrangements with respect to money market mutual funds in connection with the combination of our retail securities brokerage and clearing operations with those of Wells Fargo. The agreement extends for ten years after termination of the Wachovia Securities joint venture, which occurred on December 31, 2009. The revenue from Wells Fargo under this agreement was $61 million in 2009, $55 million in 2008 and $51 million in 2007.

	December 31, 2009	December 31, 2008
	(in billions)	
Assets Under Management (at fair market value):		
Institutional customers(1)	$ 188.4	$ 161.2
Retail customers(2)	84.4	61.6
General account	184.0	172.6

Total	$ 456.8	$ 395.4

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

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

	December 31,		
	2009	2008	2007
	(in millions)		
Co-Investments:			
Real Estate	$ 370	$ 221	$ 192
Fixed Income	14	197	409
Seed Investments:			
Real Estate	198	345	356
Public Equity	57	252	359
Fixed Income	33	52	50
Loans Secured by Investor Equity Commitments or Fund Assets:			
Real Estate secured by Investor Equity	13	179	181
Real Estate secured by Fund Assets	276	283	212
Total	$ 961	$ 1,529	$ 1,759

2009 to 2008 Annual Comparison. Revenues, as shown in the table above under Operating Results, decreased $429 million, from $1.686 billion in 2008 to $1.257 billion in 2009. Service, distribution and other revenues decreased $249 million of which $97 million related to lower revenues in certain consolidated funds, which were fully offset by lower expenses related to noncontrolling interests in these funds. The remainder of the decrease in service, distribution and other revenues includes lower mutual fund service fee revenues, partially offset by expenses as discussed below, as well as a decline in revenues related to securities lending activities. Commercial mortgage revenues decreased $130 million reflecting higher credit and valuation-related charges on interim loans in 2009, as discussed above. Asset management fees decreased $66 million, primarily from the management of retail and institutional customer assets as a result of lower average asset values. In addition, transaction and incentive fees decreased $71 million primarily reflecting a decline in real estate values due to adverse real estate market conditions. A portion of these incentive based fees are offset in incentive compensation expense in accordance with the terms of the contractual agreements. Certain of our incentive fees continue to be subject to positive or negative future adjustment based on cumulative fund performance in relation to specified benchmarks. As of December 31, 2009, $150 million of cumulative incentive fee revenue, net of compensation, is subject to future adjustment, compared to $123 million as of December 31, 2008. In 2009, adjustments of $47 million related to previously recognized incentive fees contributed to the decline in incentive fees resulting from fund performance. Proprietary investing revenues increased $87 million reflecting a decline in losses, primarily the result of lower proprietary investing balances in 2009, including the redemption of a fixed income fund and the exiting of several equity investment funds in 2009, compared to investment losses in these funds in 2008. Real estate proprietary investing revenues decreased primarily due to the impact of lower real estate values on co-investments. Future incentive, transaction, proprietary investing and commercial mortgage revenues will be impacted by the level and diversification of our proprietary investments, the commercial real estate market, and other domestic and international market conditions.

2008 to 2007 Annual Comparison. Revenues decreased $633 million, from $2.319 billion in 2007 to $1.686 billion in 2008. Revenues from proprietary investing decreased $332 million, driven by investment losses in fixed income and equity investments. Incentive fees decreased $117 million primarily related to institutional real estate funds as a result of adverse real estate market conditions. A portion of these incentive based fees are offset in incentive compensation expense in accordance with the terms of the contractual agreements. Certain of our incentive fees continue to be subject to positive or negative future adjustment based on cumulative fund performance in relation to specified benchmarks. In 2008, adjustments of $25 million related to previously recognized incentive fees contributed to the decline in incentive fees resulting from fund performance. In addition, commercial mortgage revenues decreased $45 million due to unfavorable credit market conditions which resulted in decreases in the value of investments held, partially offset by higher net investment income from higher average balances. Service, distribution and other revenues decreased $157 million, including a reduction in revenue of $150 million, which consists of a change in the service fee arrangement whereby Wells Fargo Advisors (formerly Wachovia Securities) is paying investment managers directly, with a corresponding decrease in expense, as well as lower revenues in certain consolidated real estate and fixed income funds, which

were fully offset by lower expenses related to minority interest in these funds. Service, distribution and other revenues includes payments from Wells Fargo under an agreement implementing arrangements with respect to money market mutual funds in connection with the combination of our retail securities brokerage and clearing operations with those of Wells Fargo. The terms of the agreement extend for ten years after termination of our participation in the joint venture, which occurred on December 31, 2009. The remainder of the decrease in service, distribution and other revenues includes lower other service revenue, partially offset by higher revenues related to securities lending activities. Asset management fees increased $34 million, primarily from the management of institutional customer assets as a result of net asset flows.

Expenses

2009 to 2008 Annual Comparison. Expenses, as shown in the table above under Operating Results, decreased $252 million, from $1.454 billion in 2008 to $1.202 billion in 2009. The decrease in expenses was driven by lower revenues, as discussed above, related to performance based incentive fees, lower revenues associated with certain consolidated funds, the decline in mutual fund service fee revenue, and lower interest costs related to our reduced proprietary investing activities. In addition, compensation costs decreased primarily due to lower incentive compensation as a result of lower revenues, as well as lower headcount.

2008 to 2007 Annual Comparison. Expenses decreased $164 million, from $1.618 billion in 2007 to $1.454 billion in 2008, driven by lower expenses related to the decline in service fee revenue, performance based incentive fees, and revenues associated with certain real estate and fixed income funds, as discussed above. These items are partially offset by higher compensation costs primarily reflecting increased headcount.

Individual Life

Operating Results

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

	Year ended December 31,		
	2009	2008	2007
	(in millions)		
Operating results:			
Revenues	$ 2,768	$ 2,754	$ 2,602
Benefits and expenses	2,206	2,308	1,980
Adjusted operating income	562	446	622
Realized investment gains (losses), net, and related adjustments(1)	134	(619)	(74)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 696	$ (173)	$ 548

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

Adjusted Operating Income

2009 to 2008 Annual Comparison. Adjusted operating income increased $116 million, from $446 million in 2008 to $562 million in 2009. The increase in adjusted operating income reflects improved earnings from variable products, which benefited from lower amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves, driven by the impact of more favorable equity markets in 2009 on separate account fund performance. Separate account fund performance above expected levels results in an increase in total future gross profits on which the amortization of deferred policy acquisition costs and unearned revenue reserves is based, and accordingly, lower amortization in the current period. The prior year period contained higher amortization of deferred policy acquisition costs, net of higher amortization of unearned revenue reserves in comparison to the current year, due to actual separate account performance that was below expected levels. Results in 2009 also benefited from gains on separate account fund liquidations associated with variable policy lapses and surrenders in 2009 compared to losses on these liquidations in 2008. Due to policyholder options under some of the variable contracts, lapses may occur on a quarter lag with the market risk during this lag being borne by the Company. Partially offsetting these items was the impact on variable product profitability of a decrease in asset based fees due to lower average separate account asset balances in 2009 reflecting the impact of the unfavorable equity markets in late 2008 and early 2009, as well as expected runoff of older variable policies. More favorable mortality experience, net of reinsurance, in 2009 compared to 2008 as well as higher earnings from growth in term and universal life insurance in force also contributed to the increase in adjusted operating income.

Adjusted operating income for 2009 also includes a benefit of $55 million from annual reviews of the assumptions used in our estimate of total gross profits which forms the basis for amortizing deferred policy acquisition costs and unearned revenue reserves as well as for establishing reserves for guaranteed minimum death benefit features in certain contracts. Results for 2008 include a benefit of $79 million from the annual assumption review. In addition, results for 2009 include a $30 million benefit from compensation received based on multi-year profitability of third-party products we distribute, while results for the prior year include a similar benefit of $53 million. These compensation arrangements are subject to renegotiation periodically which will affect the amount of additional compensation we are eligible to receive. The largest of these arrangements was revised effective in late 2008 and the profit opportunities will be significantly reduced in 2010 and beyond.

The benefit of $55 million in 2009 related to the annual review of assumptions reflects higher investment spread assumptions and improved future mortality expectations, partially offset by updates to interest rate assumptions which increased the reserve for the guaranteed minimum death benefit features in certain contracts. In addition, the review of assumptions in 2009 reflects a reduction in our future rate of return assumption, which reduced the benefit to the amortization of deferred policy acquisition costs net of related amortization on unearned revenue reserves. The benefit of $79 million in 2008 primarily reflects improved future mortality expectations. We derive our near-term future rate of return assumptions using a reversion to the mean approach, a common industry practice. Under this approach, we consider actual returns over a period of time and initially adjust future projected returns over a four year period so that the assets grow at the long-term expected rate of return for the entire period. However, beginning in the fourth quarter of 2008 and continuing through 2009, the projected near-term future annual rate of return calculated using the reversion to the mean approach was greater than our near-term maximum future rate of return assumption across all asset types for this business. As a result, we utilized the near-term maximum future rate of return over the four year period, thereby limiting the impact of the reversion to the mean on our estimate of total gross profits. The near-term maximum future rate of return under the reversion to mean approach was reduced in third quarter of 2009 from 10.9% to 10.1% as part of our annual assumption review. Included in this revised blended maximum future rate are assumptions for returns on various asset classes, including a 13% annual maximum rate of return on equity investments.

2008 to 2007 Annual Comparison. Adjusted operating income decreased $176 million, from $622 million in 2007 to $446 million in 2008. Adjusted operating income for 2008 includes a $79 million benefit from a net reduction in amortization of deferred policy acquisition costs and other costs due to an increased estimate of total gross profits used as a basis for amortizing deferred policy acquisition costs and unearned revenue reserves, based on an annual review, primarily reflecting improved future mortality expectations based on improvements in recent mortality experience on our in force business, compared to a similar benefit for $78 million from the annual review in 2007. Results for 2008 also include a $53 million benefit from compensation received based on multi-year profitability of third-party products we distribute, while results for 2007 include a similar benefit amounting to $57 million. These compensation arrangements are subject to renegotiation periodically which will affect the amount of additional compensation we are eligible to receive. The largest of these arrangements has been renegotiated and the profit opportunities will be significantly reduced in 2010 and beyond. Absent the effect of these items, adjusted operating income for 2008 decreased $173 million from the prior year. On this basis, the decrease in adjusted operating income is primarily due to a net increase in amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves, primarily reflecting the impact of unfavorable equity markets on both separate account fund performance, including the impact of a corresponding change to the future rate of return assumptions, and variable product policy persistency. Also contributing to the decrease in adjusted operating income in 2008 was a decrease in asset based fees due to lower separate account asset balances reflecting the impact of the unfavorable equity markets, as well as losses on separate account fund liquidations associated with variable policy lapses and surrenders. Due to policyholder options under some of the variable contracts, lapses may occur on a quarter lag with the market risk during this lag being borne by the Company. These decreases were partially offset by higher product margins from growth in term and universal life insurance in force and improved mortality experience, net of reinsurance, compared to the prior year.

The net increase in the amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves includes the impact of actual market performance on both actual profits and estimated

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future gross profits, used as the basis for amortizing deferred policy acquisition costs. As stated above, we derive our future rate of return assumptions using a reversion to the mean approach. Beginning in the fourth quarter of 2008, the projected future rate of return calculated using the reversion to the mean approach was greater than 10.9%, our maximum future rate of return assumption across all asset types for this business. As a result, we utilized the maximum future rate of return over the four year period, thereby limiting the impact of the reversion to the mean, and decreasing our estimate of total gross profits.

Revenues

2009 to 2008 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased $14 million, from $2.754 billion in 2008 to $2.768 billion in 2009. Premiums increased $73 million, primarily due to growth of our in force block of term insurance. Net investment income increased $60 million, reflecting higher asset balances primarily from the financing of statutory reserves required for certain term and universal life insurance policies and growth in universal life account balances due to increased policyholder deposits. Policy charges and fees and asset management fees and other income decreased $119 million, including a $26 million decrease in compensation received based on multi-year profitability of third-party products we distribute and an increase of $11 million related to the amortization of unearned revenue reserves due to the annual review of assumptions in both periods, as discussed above. Absent these items policy charges and fees and asset management fees and other income decreased $104 million, primarily reflecting lower net settlements on interest rate swaps including those used to manage duration, lower amortization of unearned revenue reserves reflecting the impact of more favorable equity markets on variable product separate account fund performance, and lower asset based fees due to lower average separate account asset balances in 2009 reflecting the unfavorable impact of equity market performance in late 2008 and early 2009.

2008 to 2007 Annual Comparison. Revenues increased by $152 million, from $2.602 billion in 2007 to $2.754 billion in 2008. Premiums increased $80 million, primarily due to increased premiums on term life insurance reflecting continued growth of our in force block of term insurance. Net investment income increased $93 million, reflecting higher asset balances primarily from the financing of statutory reserves required for certain term and universal life insurance policies and growth in universal life account balances due to increased policyholder deposits. Policy charges and fee income increased $26 million, including a decrease of $36 million due to the effects of updates in both periods of our assumptions related to the amortization of unearned revenue reserves based on the annual reviews, as discussed above. Absent the impact of these annual reviews, policy charges and fee income increased $62 million primarily reflecting the increase in amortization of unearned revenue reserves, discussed above, partially offset by losses on separate account fund liquidations associated with variable policy lapses and surrenders. These items were partially offset by lower asset based fees due to lower separate account asset balances reflecting the unfavorable impact of equity market performance.

Benefits and Expenses

2009 to 2008 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, decreased $102 million, from $2.308 billion in 2008 to $2.206 billion in 2009. Absent the impacts of the annual reviews conducted in both periods, as discussed above, benefits and expenses decreased $137 million, from $2.468 billion in 2008 to $2.331 billion in 2009. On this basis, amortization of deferred policy acquisition costs decreased $203 million, primarily reflecting the impact of more favorable equity markets in the second half of 2009 on variable product separate account fund performance, which was partially offset by the impact of unfavorable equity markets in late 2008 and early 2009 on variable product policy persistency in early 2009. Also on this basis, policyholders benefits, including interest credited to policyholders account balances, increased $85 million, reflecting increased policyholder reserves associated with growth in our in force block of term insurance and an increase in interest credited to policyholders account balances due to growth in universal life account balances from increased policyholder deposits, partially offset by improved mortality experience compared to the prior year, relative to expected levels.

2008 to 2007 Annual Comparison. Benefits and expenses increased $328 million, from $1.980 billion in 2007 to $2.308 billion in 2008. Absent the impacts of the annual reviews conducted in both 2008 and 2007, as discussed above, benefits and expenses increased $365 million, from $2.103 billion in 2007 to $2.468 billion in

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2008. On this basis, amortization of deferred policy acquisition costs increased $225 million, primarily reflecting the impact of unfavorable equity markets on both separate account fund performance, including the impact of a corresponding change to the future rate of return assumptions discussed above, and variable product policy persistency. Also on this basis, policyholders benefits, including interest credited to policyholders account balances, increased $88 million, reflecting higher policyholder reserves from growth in our in force block of term insurance and an increase in interest credited to policyholders account balances due to growth in universal life account balances from increased policyholder deposits. Interest expense increased $49 million, primarily reflecting interest on increased borrowings related to the financing of statutory reserves required for certain term and universal life insurance policies.

Sales Results

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

	Year ended December 31,		
	2009	2008	2007
		(in millions)	
Annualized New Business Premiums(1):			
Variable Life	$ 20	$ 39	$ 54
Universal Life	113	83	87
Term Life	226	209	212
Total	$ 359	$ 331	$ 353
Annualized new business premiums by distribution channel(1):			
Prudential Agents	$ 95	$ 109	$ 126
Third party	264	222	227
Total	$ 359	$ 331	$ 353

(1) Annualized scheduled premiums plus 10% of excess (unscheduled) and single premiums from new sales. Excludes corporate-owned life insurance.

2009 to 2008 Annual Comparison. Sales of new life insurance, measured as described above, increased $28 million, from $331 million in 2008 to $359 million in 2009. The increase in sales is primarily due to a $30 million increase in sales of universal life products and a $17 million increase in term life product sales primarily by the third party distribution channel, partially offset by a $19 million decrease in sales of variable life products primarily by Prudential Agents. Sales from the third party distribution channel were $42 million higher than 2008 due to higher sales of universal life products reflecting the impact of product repricing in the second half of 2008 as well as higher sales of term life products reflecting market disruptions for some of our competitors. In the second and fourth quarter of 2009 we increased universal life and term life prices, which could impact future sales. Sales by Prudential Agents were $14 million lower than 2008 primarily due to lower sales of variable life products which were impacted by the unfavorable market conditions experienced in late 2008 and early 2009. The number of Prudential Agents increased from 2,360 at December 31, 2008 to 2,447 at December 31, 2009.

2008 to 2007 Annual Comparison. Sales of new life insurance, measured as described above, decreased $22 million, from $353 million in 2007 to $331 million in 2008, primarily due to lower sales of variable life products by Prudential Agents. Sales of universal life and term life products also decreased from the prior year. Sales by Prudential Agents were $17 million lower than the prior year primarily due to lower sales of variable life and term life products, reflecting a product shift towards annuity sales. The number of Prudential Agents decreased from 2,425 at December 31, 2007 to 2,360 at December 31, 2008. Sales from the third party distribution channel were $5 million lower than the prior year due to lower sales of variable and universal life products.

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Policy Surrender Experience

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

	Year ended December 31,		
	2009	2008	2007
		($ in millions)	
Cash value of surrenders	$ 855	$ 802	$ 752
Cash value of surrenders as a percentage of mean future benefit reserves, policyholders account balances, and separate account balances	4.2%	3.8%	3.3%

2009 to 2008 Annual Comparison. The total cash value of surrenders increased $53 million, from $802 million in 2008 to $855 million in 2009, reflecting a greater volume of surrenders, primarily in the first half of 2009, including lapses to extended term, of variable life insurance, due primarily to market conditions in late 2008 and into early 2009 and policyholders electing to surrender their policies rather than make premium payments or the contractually required deposits needed to keep the policies in force. The level of surrenders as a percentage of mean future policy benefit reserves, policyholders account balances and separate account balances increased from 3.8% in 2008 to 4.2% in 2009.

2008 to 2007 Annual Comparison. The total cash value of surrenders increased $50 million, from $752 million in 2007 to $802 million in 2008, reflecting a greater volume of surrenders of variable life insurance in 2008 compared to the prior year, due primarily to market conditions and policyholders electing to surrender their policies rather than make premium payments or make the contractually required deposits needed to keep the policies in force. The level of surrenders as a percentage of mean future policy benefit reserves, policyholders account balances and separate account balances increased from 3.3% in 2007 to 3.8% in 2008.

Group Insurance

Operating Results

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

	Year ended December 31,		
	2009	2008	2007
		(in millions)	
Operating results:			
Revenues	$ 5,285	$ 4,960	$ 4,799
Benefits and expenses	4,954	4,620	4,513

Adjusted operating income	331	340	286
Realized investment gains (losses), net, and related adjustments(1)	(227)	(201)	(37)
Related charges(2)	(7)	(1)	(2)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 97	$ 138	$ 247

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

(2) Benefits and expenses exclude related charges which represent the unfavorable (favorable) impact of Realized investment gains (losses), net, on interest credited to policyholders account balances.

Adjusted Operating Income

2009 to 2008 Annual Comparison. Adjusted operating income decreased $9 million, from $340 million in 2008 to $331 million in 2009. Results for 2008 include a $20 million benefit from a premium adjustment for updated data on a large group life insurance case. Also included in the prior year results is a $13 million benefit, as compared to a net benefit of zero in the current year, from refinements in group disability reserves as a result of annual reviews. Excluding the prior year benefits from the premium adjustment and annual reserve refinements, adjusted operating income increased $24 million due to improved underwriting results in 2009 in both our group life and group disability businesses primarily related to business growth, which was partially offset by a related increase in operating expenses.

2008 to 2007 Annual Comparison. Adjusted operating income increased $54 million, from $286 million in 2007 to $340 million in 2008, primarily reflecting more favorable claims experience in our group life business, as well as growth in our group disability business. Also included in results for 2008 is a $20 million benefit from a premium adjustment recorded during the first quarter of 2008 for updated data on a large group life insurance case. Partially offsetting these items was less favorable investment results during 2008. Both periods reflect the benefit from refinements in group disability reserves as a result of annual reviews. These annual reviews benefited both periods by $13 million and were primarily associated with our long-term disability products.

Revenues

2009 to 2008 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased by $325 million, from $4.960 billion in 2008 to $5.285 billion in 2009. Group life premiums and policy charges and fee income increased by $182 million, from $3.232 billion in 2008 to $3.414 billion in 2009. This increase primarily reflects growth of business in force resulting from new sales, and continued strong persistency of 94.3% in 2009 compared to 93.3% in 2008. Also contributing to this increase were higher premiums from retrospectively experience-rated group life business resulting from the increase in policyholder benefits on these contracts, as discussed below. Partially offsetting the increase in group life premiums is the premium adjustment recorded in 2008 as discussed above. Group disability premiums and policy charges and fee income, which include long-term care products, increased by $126 million, from $995 million in 2008 to $1.121 billion in 2009. This increase primarily reflects growth of business in force resulting from new sales, and continued strong persistency of 90.9% in 2009 compared to 85.6% in 2008.

2008 to 2007 Annual Comparison. Revenues increased by $161 million, from $4.799 billion in 2007 to $4.960 billion in 2008. Group life premiums and policy charges and fee income increased by $54 million, from $3.178 billion in 2007 to $3.232 billion in 2008, primarily reflecting higher premiums from non-retrospectively experience-rated group life business due to the premium adjustment for updated data on a large case as discussed above and growth in business in force, as new sales exceeded the level of lapses in 2008. Lapse activity remained relatively constant as group life persistency was 94% in 2007 and 93% in 2008. Group disability premiums and policy charges and fee income, which include long-term care products, increased by $128 million from $867 million in 2007 to $995 million in 2008. This increase reflects growth in business in force resulting from new sales, which included the assumption of existing liabilities from third parties during 2008, exceeding the level of lapses, which increased as persistency deteriorated from 88% in 2007 to 86% in 2008. The group life and group disability persistency are reflective of continuing competitive pricing in the marketplace and the pricing discipline we apply in writing business. Partially offsetting these increases was a decline in net investment income of $24 million, from $671 million in 2007 to $647 million in 2008, as the benefit from growth in invested assets was more than offset by lower investment yields, principally due to lower interest rates on floating rate investments due to rate resets.

Benefits and Expenses

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

	Year ended December 31,		
	2009	**2008**	**2007**
Benefits ratio(1):			
Group life	88.4%	88.6%	90.4%
Group disability	88.9%	87.2%	86.6%
Administrative operating expense ratio(2):			
Group life	9.0%	8.6%	9.3%
Group disability	18.3%	19.8%	21.0%

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

2009 to 2008 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased by $334 million, from $4.620 billion in 2008 to $4.954 billion in 2009. This increase reflects a $283 million increase in policyholders benefits, including the change in policy reserves, from $3.733 billion in 2008 to $4.016 billion in 2009, reflecting growth of business in force and greater benefits on retrospectively experience-rated group life business that resulted in increased premiums as discussed above. Also contributing to the increase in benefits and expenses were higher operating expenses primarily related to business growth, as well as a lower benefit in 2009 of the group disability reserve refinements discussed above.

The group life benefits ratio was relatively unchanged from 2008 to 2009. Excluding the impact of the premium adjustment discussed above, the group life benefits ratio improved approximately 0.8 percentage points due to more favorable mortality experience. The group disability benefits ratio deteriorated 1.7 percentage points from 2008 to 2009, primarily due to the impact of annual reserve refinements as a result of annual reviews. Excluding the impact of the annual reserve refinements, the group disability benefits ratio was relatively unchanged from 2008 to 2009. The group life administrative operating expense ratio was relatively unchanged from 2008 to 2009. The group disability administrative operating expense ratio improved from 2008 to 2009, as growth in the business outpaced the related increase in operating expenses.

2008 to 2007 Annual Comparison. Benefits and expenses increased by $107 million, from $4.513 billion in 2007 to $4.620 billion in 2008, primarily due to a $110 million increase in policyholders benefits, including the change in policy reserves, primarily reflecting growth of business in force in our group disability business, partially offset by more favorable claims experience in our group life businesses. Also contributing to the increase in benefits and expenses were higher operating expenses primarily related to business growth.

The group life benefits ratio improved 1.8 percentage points from 2007 to 2008, due to more favorable mortality experience combined with the benefit from a premium adjustment for updated data on a large case. The group disability benefits ratio deteriorated 0.6 percentage points from 2007 to 2008, due to slightly less favorable claims experience. The group life administrative operating expense ratio improved from 2007 to 2008, as gross premiums increased at a rate that outpaced the increase in operating expenses. The group disability administrative operating expense ratio improved from 2007 to 2008, reflecting growth in the business from new sales, as discussed above, that outpaced the related increase in operating expenses.

Sales Results

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

	Year ended December 31,		
	2009	**2008**	**2007**
		(in millions)	
Annualized new business premiums(1):			

Group life	$ 339	$ 288	$ 197
Group disability(2)	238	204	155
Total	$ 577	$ 492	$ 352

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

(2) Includes long-term care products.

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2009 to 2008 Annual Comparison. Total annualized new business premiums increased $85 million, from $492 million in 2008 to $577 million in 2009. Group life sales increased $51 million driven primarily by increased large case sales to both new and existing customers, partially offset by lower premiums associated with the assumption of existing liabilities from third parties during 2009. Group disability sales increased $34 million primarily due to increased sales to existing customers, partially offset by lower premiums associated with the assumption of existing liabilities from third parties during 2009.

2008 to 2007 Annual Comparison. Total annualized new business premiums increased $140 million, from $352 million in 2007 to $492 million in 2008. Group life sales increased $91 million driven primarily by increased large case sales to both new and existing customers and higher premiums associated with the assumption of existing liabilities from third parties during 2008. Group disability sales increased $49 million due to increased sales of large case disability products to new customers, higher disability premiums associated with assumption of existing liabilities from third parties, and higher sales of long-term care products in 2008. Our sales are reflective of the continuing competitive pricing in the marketplace and the pricing discipline we apply in writing business.

International Insurance and Investments Division

Impact of foreign currency exchange rate movements on earnings

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

Forward currency hedging program

The financial results of our International Insurance segment and International Investments segment, excluding the global commodities group, for all periods presented reflect the impact of an intercompany arrangement with Corporate and Other operations pursuant to which the segments non-U.S. dollar denominated earnings in all countries are translated at fixed currency exchange rates. The fixed rates are determined in connection with a currency income hedging program designed to mitigate the risk that unfavorable exchange rate changes will reduce the segments U.S. dollar equivalent earnings. Pursuant to this program, Corporate and Other operations executes forward currency contracts with third parties to sell the net exposure of projected earnings from the hedged currency in exchange for U.S. dollars at specified exchange rates. The maturities of these contracts correspond with the future periods in which the identified non-U.S. dollar denominated earnings are expected to be generated. This program is primarily associated with the International Insurance segment s businesses in Japan, Korea and Taiwan and the International Investments segment s businesses in Korea and Europe. The intercompany arrangement with Corporate and Other operations increased (decreased) revenues and adjusted operating income of each segment as follows for the periods indicated:

	Year ended December 31,		
	2009	2008	2007
	(in millions)		
Impact on revenues and adjusted operating income:			

International Insurance	$ (37)	$ 6	$ 88
International Investments	6	(2)	(14)
Total International Insurance and Investments Division	$ (31)	$ 4	$ 74

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Results of Corporate and Other operations include any differences between the translation adjustments recorded by the segments and the gains or losses recorded from the forward currency contracts that settled during the period, which includes the impact of any over or under hedge of actual earnings as a result of projected earnings differing from actual earnings. The net impact of this program recorded within the Corporate and Other operations were gains of $26 million, $18 million, and $4 million for the years ended December 31, 2009, 2008, and 2007, respectively.

The notional amount of these forward currency contracts was $2.7 billion and $2.8 billion as of December 31, 2009 and 2008, respectively, of which $2.0 billion and $1.8 billion as of December 31, 2009 and 2008, respectively, related to our Japanese insurance operations.

Dual currency and synthetic dual currency investments

In addition, our Japanese insurance operations also hold dual currency investments in the form of fixed maturities and loans. The principal of these dual currency investments are yen-denominated while the related interest income is U.S. dollar denominated. These investments are the economic equivalent of exchanging what would otherwise be fixed streams of yen-denominated interest income for fixed streams of U.S. dollar interest income. Our Japanese insurance operations also hold investments in yen-denominated investments that have been coupled with cross-currency coupon swap agreements, creating synthetic dual currency investments. The yen/U.S. dollar exchange rate is effectively fixed, as we are obligated in future periods to exchange fixed amounts of Japanese yen interest payments generated by the yen-denominated investments for U.S. dollars at the yen/U.S. dollar exchange rates specified by the cross-currency coupon swap agreements. As of December 31, 2009 and 2008, the notional amount of these investments was ¥430 billion, or $3.8 billion, and ¥500 billion, or $4.4 billion, respectively, based upon the foreign currency exchange rates applicable at the time these investments were acquired. For the years ended December 31, 2009, 2008 and 2007, the weighted average yield generated by these investments was 2.9%, 2.3% and 2.7%, respectively.

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

	December 31, 2009	December 31, 2008
	(in millions)	
Cross-currency coupon swap agreements	$ (66)	$ 12
Foreign exchange component of interest on dual currency investments	(100)	(82)
Total	$ (166)	$ (70)

The table below presents as of December 31, 2009, the yen-denominated earnings subject to our dual currency and synthetic dual currency investments and the related weighted average exchange rates resulting from these investments.

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

Total	¥43.4	¥65.3	¥108.7	80.5

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

The present value of the earnings reflected in the table above, on a U.S. dollar denominated basis, is $0.9 billion as of December 31, 2009. The table above does not reflect the forward currency income hedging program discussed above. In establishing the level of yen-denominated earnings that will be hedged through the forward currency income hedging program we take into account the anticipated level of U.S. dollar denominated earnings that will be generated by dual currency and synthetic dual currency investments, as well as the anticipated level of U.S. dollar denominated earnings that will be generated by U.S. dollar denominated products and investments, which are discussed in greater detail below.

Impact of foreign currency exchange rate movements on equity

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

We also seek to mitigate the risk that future unfavorable foreign currency exchange rate movements will reduce our U.S. dollar equivalent equity in foreign subsidiaries through various hedging strategies. We are in the process of refining our current capital management framework, which includes available economic capital, as discussed in Liquidity and Capital Resources Prudential Financial Management of Capital, and as we further develop this framework, or as other events occur, we may alter this strategy. Available economic capital represents the excess of the fair value of assets over the fair value of liabilities for the current in force block of business. In our Japanese insurance operations we currently seek to hedge a portion of estimated available economic capital and other measures of value, including the amount attributable to the U.S. GAAP equity of our Japanese insurance operations, which totaled $5.4 billion as of December 31, 2009 excluding Accumulated other comprehensive income components of equity and certain other adjustments. We hedge a portion of the estimated available economic capital in our Japanese insurance operations through a variety of instruments, including U.S. dollar denominated assets. These assets are financed with yen-denominated liabilities and equity held in our Japanese insurance operations. In addition, we may also hedge estimated available economic capital using instruments held in our U.S. domiciled entities, such as U.S. dollar denominated debt that has been swapped to yen. In certain of our other foreign insurance operations, the U.S. GAAP equity exposure is mitigated by entering into forward currency contracts that generally qualify for hedge accounting treatment, and by holding U.S. dollar denominated investments. During the second quarter of 2009, we terminated our hedges of the U.S. GAAP equity exposure of our Korean operations due to a variety of considerations, including a desire to limit the potential for cash settlement outflows that would result from a strengthening Korean won.

As of December 31, 2009, the aggregate amount of the instruments serving as hedges of our estimated available economic capital in our Japanese insurance operations amounted to $7.0 billion, a decrease of $0.8 billion from the $7.8 billion hedged as of December 31, 2008. These instruments were principally comprised of available for sale U.S. dollar denominated investments with an amortized cost of $5.4 billion and held to maturity U.S. dollar denominated investments with an amortized cost of $0.7 billion held in our Japanese insurance operations, as well as $0.8 billion of net yen-denominated liabilities held in our U.S. domiciled entities, including a portion that has been converted to yen using swaps. The effects of the yen-denominated liabilities are reported in Corporate and Other operations. These amounts do not reflect the forward currency income hedging program or dual currency and synthetic dual currency investments discussed above, which when added to the $7.0 billion of instruments serving as an equity hedge of a portion of the estimated available economic capital, results in a total estimated available economic capital hedge of approximately $9.9 billion as of December 31, 2009. In addition, as discussed below, we have $7.4 billion of U.S. dollar assets supporting U.S. dollar liabilities related to U.S. dollar denominated products issued by our Japanese operations, which when added to the $9.9 billion of total estimated available economic capital hedge, results in total U.S. dollar instruments of approximately $17.3 billion as of December 31, 2009.

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

exchange rate movements on the U.S. GAAP equity of our Japanese insurance operations is partially offset by foreign currency exchange related changes in designated Yen-denominated debt and other hedging instruments held in our U.S. domiciled entities and recorded in Accumulated other comprehensive income as a Foreign currency translation adjustments.

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

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

Because these U.S. dollar denominated investments are recorded on the books of yen-based entities, foreign currency exchange movements will impact their value. To the extent the value of the yen strengthens as compared to the U.S. dollar, the value of these U.S. dollar denominated investments will decrease as a result of changes in the foreign currency exchange rates. Upon the ultimate sale or maturity of the U.S. dollar denominated investments, any realized change in value related to changes in the foreign currency exchange rates will be included in Realized investment gains (losses), net within the income statement and, excluded from adjusted operating income. Similarly, other-than-temporary impairments on these investments may include the impact of changes in foreign currency exchange rates, which in certain circumstances will be included in Realized investment gains (losses), net within the income statement, and, as such, excluded from adjusted operating income. See Realized Investment Gains and Losses and General Account Investments General Account Investments Fixed Maturity Securities Other-than-Temporary Impairments of Fixed Maturity Securities for a discussion of our policies regarding impairments. We seek to mitigate the risk that future unfavorable foreign currency exchange rate movements will decrease the value of our U.S. dollar denominated investments and negatively impact the equity of our yen-based entities by employing internal hedging strategies between a subsidiary of Prudential Financial and certain of our yen-based entities. See Liquidity and Capital Resources Liquidity and Capital Resources of Subsidiaries International Insurance and Investments Subsidiaries for a discussion of our internal hedging strategies.

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

In addition, as of December 31, 2009 and 2008, our international insurance operations also had $7.7 billion and $6.2 billion, respectively, of foreign currency exposure from U.S. dollar liabilities for U.S. dollar denominated products issued by these operations. A portion of these liabilities are coinsured to our U.S. domiciled insurance operations and supported by U.S. dollar denominated assets. For the U.S. dollar liabilities retained in Japan, our Japanese operations hold U.S. dollar denominated investments, including a significant portion that are designated as available for sale, and other related U.S. dollar denominated net assets, primarily accrued investment income, to support these products. The change in value due to changes in foreign currency exchange rate movements, or remeasurement, of the related U.S. dollar denominated assets and liabilities associated with these products is excluded from adjusted operating income.

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International Insurance

The results of our International Insurance operations are translated on the basis of weighted average monthly exchange rates, inclusive of the effects of the intercompany arrangement discussed above. To provide a better understanding of operating performance within the International Insurance segment, where indicated below, we have analyzed our results of operations excluding the effect of the year over year change in foreign currency exchange rates. Our results of operations excluding the effect of foreign currency fluctuations were derived by translating foreign currencies to U.S. dollars at uniform exchange rates for all periods presented, including, for constant dollar information discussed below. The exchange rates used were Japanese yen at a rate of 99 yen per U.S. dollar and Korean won at a rate of 1040 won per U.S. dollar. In addition, for constant dollar information discussed below, activity denominated in U.S. dollars is reported based on the amounts as transacted in U.S. dollars. Annualized new business premiums presented on a constant exchange rate basis in the Sales Results section below reflect translation based on these same uniform exchange rates.

Operating Results

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

	Year ended December 31,		
	2009	2008	2007
		(in millions)	
Operating results:			
Revenues:			
Life Planner operations	$ 6,443	$ 6,022	$ 5,414
Gibraltar Life	4,023	3,163	2,844
	10,466	9,185	8,258
Benefits and expenses:			
Life Planner operations	5,222	4,897	4,394
Gibraltar Life	3,401	2,541	2,266
	8,623	7,438	6,660
Adjusted operating income:			
Life Planner operations	1,221	1,125	1,020
Gibraltar Life	622	622	578
	1,843	1,747	1,598
Realized investment gains (losses), net, and related adjustments(1)	(790)	149	366
Related charges(2)	56	27	(61)
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	68	(370)	(99)
Change in experience-rated contractholder liabilities due to asset value changes(4)	(68)	370	99
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(5)	2		2
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 1,111	$ 1,923	$ 1,905

(1)

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

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

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

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

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

On May 1, 2009, our Gibraltar Life operations acquired Yamato Life, a Japanese life insurance company that declared bankruptcy in October 2008. Gibraltar Life served as the reorganization sponsor for Yamato and under the reorganization agreement acquired Yamato by contributing $72 million of capital to Yamato. Concurrent with our acquisition, substantially all of Yamato s insurance liabilities were restructured under a plan of reorganization to include special surrender penalties on existing policies. These surrender charges are 20% in the first year and will decline by 2% each year thereafter. Subsequent to the acquisition, we renamed the acquired company The Prudential Financial of Japan Life Insurance Company Ltd.

Adjusted Operating Income

2009 to 2008 Annual Comparison. Adjusted operating income from Life Planner operations increased $96 million, from $1.125 billion in 2008 to $1.221 billion in 2009, including a net unfavorable impact of $5 million from currency fluctuations. This increase in adjusted operating income primarily reflects the continued growth of our Japanese Life Planner operations, as well as more favorable mortality experience and improved investment income margins. The improved investment income margins primarily reflect investment portfolio growth in our U.S. dollar denominated products in Japan. In addition, adjusted operating income benefited by $21 million in 2009 due to the continuing migration to a new policy valuation system that resulted in favorable refinements in the current year. We anticipate completing this initiative in 2010. Partially offsetting these items was increased general and administrative expenses due primarily to $17 million of expenses recorded in 2009 related to an on-going initiative in Japan to enhance our information processes and technology systems in order to improve efficiency and lower costs.

Gibraltar Life s adjusted operating income was $622 million in both 2008 and 2009, with no impact from currency fluctuations. Results for 2009 benefited from $36 million of earnings from the acquired former business of Yamato Life, as discussed above. The earnings from the acquired business include approximately $19 million related to initial surrenders of policies following the restructuring of business, essentially consistent with our overall expectations. Offsetting these items is a decline in expense and other margins, which reflects higher general and administrative expenses, due primarily to $14 million of expenses recorded in 2009 related to an on-going initiative in Japan to enhance our information processes and technology systems in order to improve efficiency and lower costs. Results for 2009 also include net charges of $8 million due to the migration to a new policy valuation system that resulted in unfavorable refinements in the current period. We anticipate completing this initiative in 2010. In addition, adjusted operating income benefited in 2009 from higher earnings as a result of growth in our multi-currency denominated fixed annuity products, partially offset by a decline in investment income margins reflecting actions taken to reduce our risk exposure.

2008 to 2007 Annual Comparison. Adjusted operating income from Life Planner operations increased $105 million, from $1.020 billion in 2007 to $1.125 billion in 2008, including a net unfavorable impact of $10 million from currency fluctuations, primarily reflecting the continued growth of our Japanese Life Planner operations. In addition, adjusted operating income in 2008 benefited from improved investment income margins, which reflect the benefits of various investment portfolio strategies, including duration lengthening and increased exposure to corporate securities.

Gibraltar Life s adjusted operating income increased $44 million, from $578 million in 2007 to $622 million in 2008, including an unfavorable impact of $12 million from currency fluctuations. Results for 2007 benefited $15 million from investment income associated with a single investment joint venture, reflecting the sale of real estate within the venture. Excluding the impact of currency fluctuations and the foregoing investment income benefit to the prior year period, adjusted operating income for Gibraltar Life increased $71 million, reflecting improved investment income margins which reflect the benefits of various investment portfolio strategies, as discussed in more detail below, and the continued growth of our U.S. dollar denominated fixed annuity product. In addition, results for 2008 benefited from more favorable mortality experience than that of the prior year.

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Revenues

2009 to 2008 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased $1.281 billion, from $9.185 billion in 2008 to $10.466 billion in 2009, including a net favorable impact of $386 million relating to currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $895 million, from $9.513 billion in 2008 to $10.408 billion in 2009.

Revenues from our Life Planner operations increased $421 million, from $6.022 billion in 2008 to $6.443 billion in 2009, including a net favorable impact of $47 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $374 million, from $6.147 billion in 2008 to $6.521 billion in 2009. This increase in revenues came primarily from increases in premiums and policy charges and fee income of $229 million, from $5.116 billion in 2008 to $5.345 billion in 2009. Premiums and policy charges and fee income from our Japanese Life Planner operation increased $193 million, from $3.684 billion in 2008 to $3.877 billion in 2009, primarily reflecting growth of business in force from new sales and continued strong persistency. Net investment income also increased $104 million, from $984 million in 2008 to $1.088 billion in 2009, primarily due to investment portfolio growth in our U.S. dollar denominated products in Japan.

Revenues from Gibraltar Life increased $860 million, from $3.163 billion in 2008 to $4.023 billion in 2009, including a favorable impact of $339 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues for Gibraltar Life increased $521 million, from $3.366 billion in 2008 to $3.887 billion in 2009. This increase reflects a $454 million increase in premiums, from $2.251 billion in 2008 to $2.705 billion in 2009, as premiums benefited $156 million from additional face amounts of insurance issued pursuant to the final payment under a special dividend arrangement established as part of Gibraltar Life s reorganization in 2001 for which 2008 includes no such benefit. Substantially all of the premiums recognized pursuant to the special dividend arrangement were offset by a corresponding charge to increase reserves for the affected policies. Also reflected in premiums is $97 million of renewal premiums from the acquisition of Yamato, as well as higher sales of single premium whole life during 2009.

Due to the long-term nature of many of the products we sell in Japan, we have historically sought to add duration exposure to our Japanese investment portfolio by employing various strategies, including investing in longer-term securities or, by entering into long-duration floating-to-fixed interest rate swaps. These strategies better support the characteristics of our long-dated product liabilities, and have resulted in higher portfolio yields. Based on an evaluation of market conditions, beginning in the fourth quarter of 2008 and continuing into the first quarter of 2009, we terminated or offset many of these interest rate swaps in consideration of, among other things, the interest rate environment. The resulting realized investment gains from terminating or offsetting these interest rate swaps will be recognized in adjusted operating income over periods that generally approximate the expected terms of the derivatives. For 2009 and 2008, we recognized gains of $30 million and losses of $14 million, respectively, in adjusted operating income related to these realized investment gains (losses). As of December 31, 2009, $750 million of deferred gains remain to be recognized in adjusted operating income over a weighted average period of 31 years. We continue to manage the interest rate risk profile of our businesses in the context of market conditions and relative opportunities, and we expect to resume implementing these hedging strategies in 2010 to lengthen the duration of our Japanese investment portfolio as our assessment of market conditions dictates. As we do so, the impact to our portfolio yields upon the resumption of these strategies will depend on the then current interest rate environment.

2008 to 2007 Annual Comparison. Revenues increased $927 million, from $8.258 billion in 2007 to $9.185 billion in 2008, including a net favorable impact of $384 million relating to currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $543 million, from $8.970 billion in 2007 to $9.513 billion in 2008.

Revenues from our Life Planner operations increased $608 million, from $5.414 billion in 2007 to $6.022 billion in 2008, including a net favorable impact of $123 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $485 million from 2007 to 2008, primarily due to an increase in premiums and policy charges and fee income of $301 million, from $4.815 billion in 2007 to

$5.116 billion in 2008. Premiums and policy charges and fee income from our Japanese Life Planner operation increased $250 million, from $3.434 billion in 2007 to $3.684 billion in 2008. Premiums and policy charges and fee income from our Korean operation increased $25 million, from $1.053 billion in 2007 to $1.078 billion in 2008. The increase

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in premiums and policy charges and fee income in both operations was primarily the result of growth in business in force from new sales and strong persistency. Net investment income also increased $152 million, from $832 million in 2007 to $984 million in 2008, due to higher portfolio yields from various investment portfolio strategies, including duration lengthening and increased exposure to corporate securities, and asset growth.

Revenues from Gibraltar Life increased $319 million, from $2.844 billion in 2007 to $3.163 billion in 2008, including a favorable impact of $261 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $58 million, from $3.308 billion in 2007 to $3.366 billion in 2008. This increase reflects a $125 million increase in net investment income, from $889 million in 2007 to $1.014 billion in 2008, driven by the continued growth of our U.S. dollar denominated annuity product, as well as higher portfolio yields from various investment portfolio strategies including increased exposure to corporate securities, increased utilization of U.S. dollar denominated investments and duration lengthening. Premiums decreased $35 million from $2.286 billion in 2007 to $2.251 billion in 2008, driven primarily by a decrease in single pay premiums and lower renewal premiums reflecting the attrition of existing business. Our renewal premiums have declined as the market has continued to transition from traditional products, on which we record premiums, to newer products such as those with a retirement and savings objective, for which customer funds received are recorded as deposits.

Benefits and Expenses

2009 to 2008 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $1.185 billion, from $7.438 billion in 2008 to $8.623 billion in 2009, including a net unfavorable impact of $391 million related to currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $794 million, from $7.697 billion in 2008 to $8.491 billion in 2009.

Benefits and expenses of our Life Planner operations increased $325 million, from $4.897 billion in 2008 to $5.222 billion in 2009, including a net unfavorable impact of $52 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $273 million, from $5.004 billion in 2008 to $5.277 billion in 2009. Benefits and expenses of our Japanese Life Planner operations increased $241 million, from $3.421 billion in 2008 to $3.662 billion in 2009, primarily reflecting an increase in policyholder benefits, including changes in reserves, which was driven by the growth in business in force. Also contributing to the increase in benefits and expenses was increased amortization of deferred policy acquisition costs and higher general and administrative expenses primarily as a result of business growth. Reflected in the higher general and administrative expenses is $17 million of expenses recorded in 2009 for the Life Planner operations related to an on-going initiative in Japan to enhance our information processes and technology systems in order to improve efficiency and lower costs.

Gibraltar Life s benefits and expenses increased $860 million, from $2.541 billion in 2008 to $3.401 billion in 2009, including an unfavorable impact of $339 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $521 million, from $2.693 billion in 2008 to $3.214 billion in 2009. This increase reflects an increase in policyholder benefits, including changes in reserves, of $369 million reflecting the effects of the special dividend arrangement discussed above, higher single premium whole life sales in 2009, and the acquisition of Yamato. Also contributing to this increase is higher amortization of deferred policy acquisition costs related to the continued growth of our multi-currency denominated fixed annuity products and the increase in single premium whole life sales, as well as higher general and administrative expenses. Reflected in the higher general and administrative expenses is $14 million of expenses recorded in 2009 related to an on-going initiative in Japan to enhance our information processes and technology systems in order to improve efficiency and lower costs.

We currently estimate that we will incur approximately $30 million of non-capitalizable costs during the first half of 2010 related to our on-going initiative in Japan to enhance our information processes and technology systems, as discussed above, with the vast majority of these expenditures to be recognized in our Gibraltar Life operations.

2008 to 2007 Annual Comparison. Benefits and expenses increased $778 million, from $6.660 billion in 2007 to $7.438 billion in 2008, including a net unfavorable impact of $406 million related to currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $372 million, from $7.325 billion in 2007 to $7.697 billion in 2008.

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Benefits and expenses of our Life Planner operations increased $503 million, from $4.394 billion in 2007 to $4.897 billion in 2008, including a net unfavorable impact of $133 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $370 million, from $4.634 billion in 2007 to $5.004 billion in 2008. Benefits and expenses of our Japanese Life Planner operations increased $256 million, from $3.165 billion in 2007 to $3.421 billion in 2008. Benefits and expenses from our Korean operation increased $61 million, from $1.006 billion in 2007 to $1.067 billion in 2008. The increase in benefits and expenses in both operations reflects an increase in policyholder benefits, including changes in reserves, which was driven by the growth in business in force.

Gibraltar Life s benefits and expenses increased $275 million, from $2.266 billion in 2007 to $2.541 billion in 2008, including an unfavorable impact of $273 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $2 million, from $2.691 billion in 2007 to $2.693 billion in 2008. This increase reflects higher interest credited to policyholders account balances and higher amortization of deferred policy acquisition costs both related to the continued growth of our U.S. dollar denominated annuity product. Mostly offsetting these items is a decrease in policyholder benefits, including changes in reserves, which was driven by more favorable mortality experience, as well as the attrition of existing business as discussed above.

Sales Results

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

	Year ended December 31,		
	2009	2008	2007
		(in millions)	
Annualized new business premiums:			
On an actual exchange rate basis:			
Life Planner operations	$ 833	$ 775	$ 788
Gibraltar Life	568	454	342
Total	$ 1,401	$ 1,229	$ 1,130
On a constant exchange rate basis:			
Life Planner operations	$ 847	$ 793	$ 827
Gibraltar Life	557	469	382
Total	$ 1,404	$ 1,262	$ 1,209

2009 to 2008 Annual Comparison. On a constant exchange rate basis, annualized new business premiums increased $142 million, from $1.262 billion in 2008 to $1.404 billion in 2009.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased $54 million, primarily due to higher sales in Korea and Taiwan mostly reflective of the improving economic environment. The increased sales in Korea also reflect higher sales in the fourth quarter in advance of price increases effective January 1, 2010.

The number of Life Planners increased by 244, or 4%, from 6,365 as of December 31, 2008 to 6,609 as of December 31, 2009, driven by increases of 74 in Brazil, 63 in Taiwan, 59 in Poland, and 31 in Korea. During the same period, the number of Life Planners in Japan increased by 23, reflective of the transfer of 152 Life Planners to Gibraltar over the last twelve months, primarily in support of our efforts to expand our bank channel distribution and to service orphaned policyholders. Factoring in these transfers, the number of Life Planners would have increased 5%, from December 31, 2008 to December 31, 2009. Prior to December 31, 2008, an additional 152 Japanese Life Planners were transferred to Gibraltar.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operation increased $88 million, primarily due to higher sales of protection products in our bank distribution channels.

The number of Life Advisors increased by 68, from 6,330 as of December 31, 2008 to 6,398 as of December 31, 2009, as new hires and 54 Life Planners transferred to Gibraltar as Life Advisors over the last twelve months were offset by resignations and terminations due to failure to meet minimum sales production standards. The remaining Life Planners transferred to Gibraltar, as discussed above, are not considered Life Advisors.

2008 to 2007 Annual Comparison. On a constant exchange rate basis, annualized new business premiums increased $53 million, from $1.209 billion in 2007 to $1.262 billion in 2008.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations decreased $34 million. Sales through the first nine months of 2008 were relatively flat, with growth in Japan offset by a decline in Korea reflecting the continued competitive market environment. However, due to the economic environment and concerns over U.S. financial institutions, sales in the fourth quarter of 2008 declined 12% from the prior year quarter, with declines in both Japan and Korea.

The number of Life Planners increased 199, or 3%, from 6,166 as of December 31, 2007 to 6,365 as of December 31, 2008, driven by increases of 90 in Taiwan, 67 in Korea, and 29 in Argentina. During 2008, 70 Life Planners in Japan were transferred to Gibraltar primarily to support our efforts to expand our bank channel distribution. Factoring in these transfers, the number of Life Planners in Japan would have increased 2%, from December 31, 2007 to December 31, 2008, which reflects lower recruiting in Japan in the later part of 2008 due to a more selective screening process meant to further improve Life Planner retention and quality, as well as recruiting challenges posed by the economic environment.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operation increased $87 million, primarily reflecting strong sales of a new U.S. dollar denominated retirement income product launched in the first quarter of 2008, as well as higher sales of our U.S. dollar denominated fixed annuity product and a new single premium yen denominated endowment product. The number of Life Advisors increased by 66, from 6,264 as of December 31, 2007 to 6,330 as of December 31, 2008, as we continue to focus on hiring practices to enhance retention and productivity. The Life Planners transferred to Gibraltar as discussed above, are not considered Life Advisors, as they sell only through the bank channel.

Investment Margins and Other Profitability Factors

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

We base premiums and cash values in most countries in which we operate on mandated mortality and morbidity tables. Our mortality and morbidity experience in the International Insurance segment on an overall basis in the years ended December 31, 2009, 2008, and 2007 was well within our pricing assumptions and below the guaranteed levels reflected in the premiums we charge.

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International Investments

Operating Results

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

	Year ended December 31,		
	2009	2008 (in millions)	2007
Operating results:			
Revenues	$ 422	$ 262	$ 745
Expenses	379	594	489
Adjusted operating income	43	(332)	256
Realized investment gains (losses), net, and related adjustments(1)	(2)	2	1
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests (2)	(41)	290	(10)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$	$ (40)	$ 247

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

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

In February 2010, we signed a definitive agreement to sell Prudential Investment & Securities Co., Ltd. and Prudential Asset Management Co., Ltd, which together comprise our Korean asset management operations. The net proceeds from this agreement are expected to be approximately equal to our book value. As a result of the agreement, which is subject to local regulatory approval, results of our Korean asset management operations will, commencing with first quarter of 2010 reporting, be excluded from adjusted operating income for all periods reported. Results of the International Investments segment include earnings of $17 million, $28 million and $114 million for the years ended December 31, 2009, 2008, and 2007, respectively, related to the Korean asset management operations.

On July 12, 2007, we sold our 50 percent interest in our operating joint ventures Oppenheim Pramerica Fonds Trust GmbH and Oppenheim Pramerica Asset Management S.a.r.l., which we accounted for under the equity method, to our partner Oppenheim S.C.A. for $121 million. These businesses establish, package and distribute mutual fund products to German and other European retail investors. We recorded a pre-tax gain on the sale of $37 million, which is reflected in the adjusted operating income of our International Investments segment in 2007. In addition to the gain on sale, these businesses contributed $3 million of adjusted operating income to the results of the International Investments segment for the year ended December 31, 2007.

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

UBI Pramerica joint venture.

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

On May 25, 2009, we entered into an agreement with Mexican financial services group Grupo Actinver SA to sell our mutual fund and banking operations in Mexico. As a result, these operations are reflected as discontinued operations for all periods presented. This transaction closed on October 6, 2009. We recorded a pre-tax gain on the sale of $8 million, which is also reflected in discontinued operations. This transaction does not include our insurance business, our pension fund business or our real estate investments that are located in Mexico. Income (loss) from discontinued operations reflects $12 million, $(13) million and $3 million for the years ended December 31, 2009, 2008 and 2007, respectively, related to these operations, including $13 million of goodwill impairments recorded in 2008, discussed below.

Adjusted Operating Income

2009 to 2008 Annual Comparison. Adjusted operating income increased $375 million, from a loss of $332 million in 2008 to income of $43 million in 2009, primarily reflecting prior year impairment charges of $426 million related to operating joint ventures and goodwill, as discussed below. Excluding these impairments, adjusted operating income decreased $51 million from the prior year. The decrease reflects lower results from the segment s global commodities group due to less favorable sales and trading results and a lower benefit from market value changes on securities relating to exchange memberships in 2009, partially offset by a $19 million credit loss related to a brokerage client that was recorded in 2008. Also contributing to the decrease in adjusted operating income were lower results from the segment s asset management businesses, primarily in our Korean operation, reflecting the conclusion of revenues received under an agreement with the Korean government. The adjusted operating income of our Korean asset management operation includes $3 million and $18 million in 2009 and 2008, respectively, of fee revenue from the Korean government under an agreement entered into in connection with the acquisition of PISC, related to the provision of asset management and brokerage services, which agreement ended on February 27, 2009.

2008 to 2007 Annual Comparison. Adjusted operating income decreased $588 million, from income of $256 million in 2007 to a loss of $332 million in 2008, primarily reflecting impairment charges of $426 million related to operating joint ventures and goodwill. During the fourth quarter of 2008, we recorded an impairment of $316 million to the carrying value of certain operating joint ventures associated with the segment s asset management businesses. These operating joint ventures are accounted for under the equity method and the impairments related to our joint ventures in Italy, Brazil and Mexico. In addition, during the fourth quarter of 2008, we recorded a goodwill impairment of $110 million associated with the segment s asset management businesses. Both the goodwill and joint venture impairments reflect the significant deterioration in financial market conditions that occurred during the fourth quarter of 2008, which resulted in a decline in our anticipated future asset management and transaction based fees, and hence a decrease in the expected future earnings of the segment s asset management businesses. As of December 31, 2008, the remaining carrying value of our operating joint ventures and goodwill was $304 million and $0 million, respectively, related to the segment s asset management businesses. There are no operating joint ventures or goodwill associated with the segment s global commodities group. See Accounting Policies & Pronouncements Application of Critical Accounting Estimates Goodwill for further discussion of the assumptions and methodologies used to determine the goodwill impairment.

Also contributing to the decrease in adjusted operating income is the benefit in 2007 of a $37 million gain from the sale of the segment s Oppenheim joint ventures and a $17 million gain from recoveries related to a former investment of the segment s Korean asset management operation. The decrease also reflects lower results from the segment s asset management businesses, primarily in our Korean operation, as well as lower results from the segment s global commodities group. The decrease in earnings for the global commodities group is driven by lower gains on securities relating to exchange memberships, which benefited 2007 by $42 million, while benefiting 2008 by $18 million, as well as a $19 million credit loss related to a brokerage client that was recorded in the first quarter of 2008. The adjusted operating income of our Korean asset management operation includes fee revenue from the Korean government under the agreement discussed above of $18 million and $17 million in 2008 and 2007, respectively.

Revenues

2009 to 2008 Annual Comparison. Revenues, as shown in the table above under "Operating Results," increased $160 million, from $262 million in 2008 to $422 million in 2009. Results for 2008 include impairment charges of $316 million related to operating joint ventures discussed above. Excluding these impairments, revenues decreased $156 million, from $578 million in 2008 to $422 million in 2009, primarily reflecting lower revenues in the global commodities group. This decrease also reflects lower revenues from the segment s asset management businesses, primarily in our Korean operation.

2008 to 2007 Annual Comparison. Revenues decreased $483 million, from $745 million in 2007 to $262 million in 2008, primarily reflecting the $316 million operating joint venture impairments discussed above. This decrease also reflects lower revenues from the segment s asset management businesses, primarily in our Korean operation, as well as the benefit to 2007 of the gain from the sale of Oppenheim and the gain from the recovery of a former investment, as discussed above. Partially offsetting this decrease were higher revenues in our global commodities group due to increased sales and trading activity, which more than offset the lower benefit in 2008 from securities relating to exchange memberships.

Expenses

2009 to 2008 Annual Comparison. Expenses, as shown in the table above under Operating Results, decreased $215 million, from $594 million in 2008 to $379 million in 2009, primarily reflecting the $110 million goodwill impairment in 2008 discussed above. This decrease also reflects lower expenses corresponding with the lower level of revenues generated by the global commodities group and the segment s asset management businesses, primarily in our Korean operation.

2008 to 2007 Annual Comparison. Expenses increased $105 million, from $489 million in 2007 to $594 million in 2008, primarily reflecting the $110 million goodwill impairment discussed above. This increase also reflects the $19 million credit loss in our global commodities group and higher expenses corresponding with the higher level of revenues generated by the sales and trading activity of our global commodities group. Partially offsetting these items were lower expenses in the segment s asset management businesses corresponding with the lower level of revenues generated by these businesses.

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Corporate and Other

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

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

	Year ended December 31,		
	2009	2008	2007
		(in millions)	
Operating results:			
Corporate Operations:			
Net investment income, net of interest expense, excluding capital debt interest expense	$ 57	$ 218	$ 302
Capital debt interest expense	(495)	(331)	(229)
Pension income and employee benefits	211	273	230
Other corporate activities	(441)	(368)	(463)
Total Corporate Operations(1)	(668)	(208)	(160)
Real Estate and Relocation Services	(60)	(189)	28
Adjusted operating income	(728)	(397)	(132)
Realized investment gains (losses), net, and related adjustments(2)	47	(409)	(126)
Investment gains (losses) on trading account assets supporting insurance liabilities, net(1)(3)			2
Divested businesses(4)	2,131	(506)	274
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(5)	(2,311)	336	(391)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (861)	$ (976)	$ (373)

(1) Includes consolidating adjustments.
(2) Revenues exclude Realized investment gains (losses), net, and related adjustments. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.
(3) Revenues exclude net investment gains and losses on trading account assets supporting insurance liabilities. See Investment Gains and Losses on Trading Account Assets Supporting Insurance Liabilities and Changes in Experience-Rated Contractholder Liabilities Due to Asset Value Changes.
(4) See Divested Businesses.
(5) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis on an after-tax basis as a separate line in our Consolidated Statements of Operations. Earnings attributable to noncontrolling interests are excluded from adjusted operating income but included in income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis as a separate line in our Consolidated Statements of Operations. Earnings attributable to noncontrolling interests represents the portion of earnings from consolidated entities that relates to the equity interests of minority investors.

2009 to 2008 Annual Comparison. The loss from corporate and other operations, on an adjusted operating income basis, increased $331 million, from $397 million in 2008 to $728 million in 2009. The loss from corporate operations increased $460 million, from $208 million in 2008 to $668 million in 2009. Investment income, net of interest expense, excluding capital debt interest expense, decreased $161 million, primarily reflecting lower earnings from the investment of proceeds from our debt issuances, and other borrowings, which are invested in cash and short-term investments, as well as lower yields on cash equivalents. Higher levels of short-term liquidity have been maintained in 2009 to provide additional flexibility to address changing cash needs in view of volatile financial market conditions. The need to hold higher levels of short-term liquidity, coupled with the proceeds from the sale of our minority joint venture interest in Wachovia Securities, will result in higher than historical levels of cash and short-term investments in Corporate and Other until such time as capital is deployed to our business segments or invested longer-term. Investment income, net of interest expense, excluding capital debt interest expense was also impacted by our repurchase, since December 2008, of substantially all of our convertible senior notes, the proceeds of which had been invested primarily in short-term investments, as well as lower earnings on other invested assets. Capital debt interest expense increased $164 million due to a greater level of capital debt, which includes the issuance in June 2008 of $1.5 billion of junior subordinated notes and reflects the use of a portion of the proceeds from prior sales of retail medium-term notes for general corporate purposes in 2009. Previously, these proceeds were used to support an asset portfolio within the Retirement segment for which the Company has employed a substitute funding source, as discussed in Liquidity and Capital Resources Financing Activities. Also contributing to the greater loss from corporate operations in 2009 are increased losses from other corporate activities, which reflects an increase in our deferred compensation liabilities and other retained corporate expenses. The increased losses were partially offset by a decline in the level of costs related to our retained obligations to certain policyholders with whom we had previously agreed to provide insurance for reduced or no premium in accordance with contractual settlements related to prior individual life sales practice remediation. Both our deferred compensation liabilities and our retained obligations to certain policyholders are impacted by financial market conditions.

Corporate operations pension income and employee benefits decreased $62 million. The decrease reflects increased post-retirement benefit costs due to the amortization of prior year losses and lower investment returns due to the lower asset base reflective of market conditions in late 2008 and early 2009, partially offset by an increase in income from our qualified pension plan. Income from our qualified pension plan increased $18 million, from $290 million in 2008 to $308 million in 2009.

For purposes of calculating pension income from our own qualified pension plan for the year ended December 31, 2010, we will decrease the discount rate to 5.75% from 6.00% in 2009. The expected rate of return on plan assets will remain unchanged at 7.50% in 2010 and the assumed rate of increase in compensation will remain unchanged at 4.5%. We determined our expected rate of return on plan assets based upon a building block approach that considers inflation, real return, term premium, credit spreads, equity risk premium and capital appreciation as well as expenses, expected asset manager performance and the effect of rebalancing for the equity, debt and real estate asset mix applied on a weighted average basis to our pension asset portfolio. Giving effect to the foregoing assumptions and other factors, we expect on a consolidated basis income from our own qualified pension plan will continue to contribute to adjusted operating income in 2010, but at a level of about $10 million to $20 million higher than that of the year 2009. Other postretirement benefit expenses will decrease in a range of $5 million to $10 million. The decrease in other postretirement benefit expense is driven primarily by a change in the discount rate from 6.00% to 5.50%, and an increase in plan asset values, which was partially offset by a change in the expected rate of return from 8.00% to 7.50%. In 2010, pension and other postretirement benefit service costs related to active employees will continue to be allocated to our business segments.

The loss, on an adjusted operating income basis, of our real estate and relocation services business decreased $129 million, from $189 million in 2008 to $60 million in 2009. Results in 2008 include a goodwill impairment of $117 million, as discussed below. Excluding this impairment, the loss decreased $12 million, reflecting lower loan loss provisions and lower operating expenses, partially offset by lower royalty fees and lower relocation revenue from real estate referral fees primarily due to unfavorable residential real estate market conditions. Results for 2009 also include our share of the earnings from equity method investments, which include goodwill impairments recorded in 2009 within these entities. Certain of our clients utilize a fixed fee home sale program under which we assume the benefits and burdens of ownership with respect to a relocating employee s home that is purchased by us, including carrying costs and any loss on sale. As of December 31, 2009, we held in unsold inventory homes with a net value of $53 million under this program.

2008 to 2007 Annual Comparison. Adjusted operating income decreased $265 million, from a loss of $132 million in 2007 to a loss of $397 million in 2008. The greater loss in 2008 is primarily due to less favorable results in our real estate and relocation services business. Adjusted operating income of our real estate and relocation services business decreased $217 million, from income of $28 million in 2007 to a loss of $189 million in 2008. The loss in 2008 includes a goodwill impairment of $117 million recorded during the fourth quarter of 2008. This impairment, which was all of the goodwill associated with this business, is reflective of the further deterioration of the U.S. housing market that occurred during the fourth quarter of 2008 and our view of

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the timing of the future recovery of this market, which resulted in a decrease in the expected future earnings of this business. See Accounting Policies & Pronouncements Application of Critical Accounting Estimates Goodwill for further discussion of the assumptions and methodologies used to determine the goodwill impairment. Also contributing to the decline in adjusted operating income are lower royalty fees, increased bad debt reserves and lower relocation revenue from real estate referral fees and home sale transactions due to the less favorable residential real estate market conditions. Certain of our clients utilize a fixed fee home sale program under which we assume the benefits and burdens of ownership with respect to a relocating employee s home that is purchased by us, including carrying costs and any loss on sale. As of December 31, 2008, we held in unsold inventory homes with a net value of $103 million under this program.

Adjusted operating income from corporate operations decreased $48 million, from a loss of $160 million in 2007 to a loss of $208 million in 2008. Capital debt interest expense increased by $102 million due to increased borrowings, which includes the issuance in June 2008 of $1.5 billion of junior subordinated notes. In addition, corporate operations investment income, net of interest expense, excluding capital debt interest expense, decreased $84 million, primarily reflecting lower earnings from the investment of proceeds from our convertible debt issues, as discussed below, and lower yields on invested assets. Partially offsetting these items was the benefit from other corporate activities of $95 million, reflecting a decline in our deferred compensation liabilities and other compensation related items in 2008 versus the prior year, as well as lower costs associated with philanthropic activities and other retained corporate expenses. This benefit was partially offset by increased costs related to our retained obligations relating to policyholders with whom we had previously agreed to provide insurance for reduced or no premium in accordance with contractual settlements related to prior individual life sales practices remediation. Both our deferred compensation liabilities and our retained obligations to certain policyholders are impacted by financial market conditions.

The $2 billion November 2005 convertible debt securities, for which investment of proceeds in fixed income securities contributed to results of 2007, were repaid in May 2007. The proceeds from our $2 billion December 2006 convertible debt issuance were used to fund an investment portfolio of fixed income securities until December 2007, which also benefited results of the prior year. These proceeds, as well as the remaining proceeds from our $3 billion December 2007 convertible debt issuance, were invested primarily in short-term investments or used to support operating needs in lieu of other short-term borrowings. In December 2008, we repurchased substantially all of our $2 billion December 2006 convertible debt issuance. In December 2008, we also repurchased, in individually negotiated transactions, $853 million of our $3 billion December 2007 convertible debt issuance, which notes were offered to us by certain holders. The 2007 notes were repurchased at a discount resulting in a pre-tax gain of $32 million, which is included in other corporate activities.

Corporate operations pension income and employee benefits increased $43 million, which primarily reflects the impact of census and other demographic assumption updates to our post-retirement and post-employment benefit plans. Income from our qualified pension plan decreased $76 million, from $366 million in 2007 to $290 million in 2008, reflecting the impact of the transfer in April 2007 of $1 billion in plan assets within the qualified pension plan under Section 420 of the Internal Revenue Code from assets supporting pension benefits to assets supporting retiree medical benefits. However, as a result of the transfer, the decline in income from our qualified pension plan was offset by a corresponding decline in other postretirement benefit expenses.

Results of Operations of Closed Block Business

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

Each year, the Board of Directors of Prudential Insurance determines the dividends payable on participating policies for the following year based on the experience of the Closed Block, including investment income, net realized and unrealized investment gains, mortality experience and other factors. Although Closed Block experience for dividend action decisions is based upon statutory results, at the time the Closed Block was established, we developed, as required by U.S. GAAP, an actuarial calculation of the timing of the maximum

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future earnings from the policies included in the Closed Block. If actual cumulative earnings in any given period are greater than the cumulative earnings we expected, we will record this excess as a policyholder dividend obligation. We will subsequently pay this excess to Closed Block policyholders as an additional dividend unless it is otherwise offset by future Closed Block performance that is less favorable than we originally expected. The policyholder dividends we charge to expense within the Closed Block Business will include any change in our policyholder dividend obligation that we recognize for the excess of actual cumulative earnings in any given period over the cumulative earnings we expected in addition to the actual policyholder dividends declared by the Board of Directors of Prudential Insurance.

As of 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. As of December 31, 2009, actual cumulative earnings are below the expected cumulative earnings by $601 million, thereby eliminating the cumulative earnings policyholder dividend obligation. Actual cumulative earnings, as required by U.S. GAAP, reflect the recognition of realized investment gains and losses in the current period, as well as changes in assets and related liabilities that support the Closed Block policies. Furthermore, the accumulation of net unrealized investment gains 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 as of December 31, 2009 remains at zero.

Operating Results

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

	Year ended December 31,		
	2009	**2008**	**2007**
		(in millions)	
U.S. GAAP results:			
Revenues	$ 5,245	$ 7,059	$ 7,981
Benefits and expenses	5,725	7,043	7,691
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (480)	$ 16	$ 290

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

2009 to 2008 Annual Comparison. Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures decreased $496 million, from income of $16 million in 2008 to a loss of $480 million in 2009. Results for 2009 include a decrease of $1.300 billion in net realized investment gains (losses), from gains of $15 million in 2008 to losses of $1.285 billion in 2009, primarily due to a net decrease in the market value of derivatives used in duration management programs. For a discussion of Closed Block Business realized investment gains (losses), net, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses. Net investment income, net of interest expense, decreased $199 million, primarily related to lower portfolio yields, including lower interest rates on floating rate investments due to rate resets and reinvestments at lower yields, as well as a decrease in income on joint ventures and limited partnership investments accounted for under the equity method. These decreases to income were partially offset by a decrease of $348 million in dividends paid and accrued to policyholders, primarily due to a decrease in the dividend scales for 2009 and 2010. In addition, amortization of deferred policy acquisition costs decreased $46 million reflecting the impact of investment losses on actual gross margins for the period compared to the previously estimated expected gross margins for the period. During 2009, the cumulative earnings policyholder dividend obligation was reduced from $851 million to zero, and was a partial offset to the decline in earnings as discussed above. In 2008, the change in the cumulative earnings policyholder dividend

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obligation of $299 million was an offset to the decline in earnings in the period. As noted above, as of December 31, 2009 actual cumulative earnings are below the expected cumulative earnings by $601 million. There will be no cumulative earnings policyholder dividend obligation until this amount is recovered. Without the benefit of the cumulative earnings policyholder dividend obligation, Closed Block Business earnings could continue to be volatile primarily due to changes in investment results.

2008 to 2007 Annual Comparison. Income from continuing operations before income taxes and equity in earnings of operating joint ventures decreased $274 million, from $290 million in 2007 to $16 million in 2008. Results for 2008 include a decrease of $574 million in net realized investment gains, from $589 million in 2007 to $15 million in 2008. For a discussion of Closed Block Business realized investment gains (losses), net, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses. Net investment income, net of interest expense, decreased $301 million, primarily related to lower yields and a decrease in income on joint ventures and limited partnership investments accounted for under the equity method. These decreases to income were partially offset by a decrease in dividends paid and accrued to policyholders, primarily due to a decrease in the 2009 dividend scale. The impact of these items contributed to actual cumulative earnings which, when compared to the expected cumulative earnings, resulted in a decrease in the cumulative earnings policyholder dividend obligation expense of $548 million from 2007, compared to 2008. As of December 31, 2008, the excess of actual cumulative earnings over the expected cumulative earnings was $433 million.

Revenues

2009 to 2008 Annual Comparison. Revenues, as shown in the table above under Operating Results, decreased $1.814 billion, from $7.059 billion in 2008 to $5.245 billion in 2009, principally driven by the $1.300 billion decrease in net realized investment gains (losses) and a decrease of $243 million in net investment income, as discussed above. In addition, premiums declined, with a related decrease in changes in reserves, primarily due to a lower amount of dividends used by policyholders to purchase additional insurance, as a result of the 2009 and 2010 dividend scale reductions, and to a lesser extent, the expected in force decline as policies terminate.

2008 to 2007 Annual Comparison. Revenues decreased $922 million, from $7.981 billion in 2007 to $7.059 billion in 2008, principally driven by the $574 million decrease in net realized investment gains and a decrease of $368 million in net investment income, as discussed above.

Benefits and Expenses

2009 to 2008 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, decreased $1.318 billion, from $7.043 billion in 2008 to $5.725 billion in 2009. This decline included a $900 million decrease in dividends to policyholders reflecting a decrease in the cumulative earnings policyholder dividend obligation expense of $552 million, as well as a decrease in dividends paid and accrued to policyholders of $348 million, primarily due to a decrease in the dividend scales. Policyholders benefits, including changes in reserves, decreased $325 million driven by a decline in premiums, as discussed above. In addition, amortization of deferred policy acquisition costs decreased reflecting the impact of investment losses on actual gross margins for the period compared to the previously estimated expected gross margins for the period.

2008 to 2007 Annual Comparison. Benefits and expenses decreased $648 million, from $7.691 billion in 2007 to $7.043 billion in 2008. This decrease included a $609 million decline in dividends to policyholders reflecting a decrease in the cumulative earnings policyholder dividend obligation expense of $548 million, as well as a decrease in dividends paid and accrued to policyholders of $61 million, primarily due to a decrease in the 2009 dividend scale, partially offset by the 2008 dividend scale increase, a higher dividend accumulation crediting rate and normal growth.

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Income Taxes

Shown below is our income tax provision for the years ended December 31, 2009, 2008 and 2007, separately reflecting the impact of certain significant items. Also presented below is the income tax provision that would have resulted from application of the statutory 35% federal income tax rate in each of these periods.

	Year ended December 31,		
	2009	2008	2007
		(in millions)	
Tax provision	$ 21	$ (487)	$ 1,220
Impact of:			
Low income housing and other tax credits	68	82	67
Non-taxable investment income	177	52	269
Foreign taxes at other than U.S. rate	15	16	68
State and local taxes	(2)	8	(21)
Repatriation assumption change	(66)		
Change in valuation allowance			32
Non-deductible expenses	3	(1)	(10)
Non-deductible goodwill impairment		(83)	
Expiration of statute of limitations and related interest	272		
Other	61	14	14
Tax provision excluding these items	$ 549	$ (399)	$ 1,639
Tax provision at statutory rate	$ 549	$ (399)	$ 1,639

We adopted the revised authoritative guidance for accounting for uncertainty in income taxes on January 1, 2007. For additional information regarding the adoption of this guidance, see Note 19 to the Consolidated Financial Statements.

Our income tax provision amounted to an income tax expense of $21 million in 2009 compared to a benefit of $487 million in 2008. The increase in income tax expense primarily reflects the increase in pre-tax income from continuing operations before income taxes and equity in earnings of operating joint ventures for the year ended December 31, 2009. In addition, the 2009 income tax expense includes a reduction to the liability for unrecognized tax benefits and related interest of $272 million, 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. In addition, current year income taxes include the benefit from a revision of the estimated income taxes for 2008, based upon the filing of the 2008 federal income tax return in the third quarter. The 2008 income tax benefit of $487 million reflects the benefit of the dividends received deduction as well as the impact of a lower level of earnings.

For additional information regarding income taxes, see Note 19 to the Consolidated Financial Statements.

Discontinued Operations

Included within net income are the results of businesses which are reflected as discontinued operations under U.S. GAAP. Income from discontinued operations, net of taxes, was $19 million, $18 million and $20 million for the years ended December 31, 2009, 2008 and 2007, respectively.

For additional information regarding discontinued operations see Note 3 to the Consolidated Financial Statements.

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Divested Businesses

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

	Year ended December 31,		
	2009	2008	2007
		(in millions)	
Financial Advisory	$ 2,167	$ (351)	$ 300
Commercial mortgage securitization operations	(12)	(158)	(63)
Other(1)	(24)	3	37
Total divested businesses excluded from adjusted operating income	$ 2,131	$ (506)	$ 274

(1) Primarily includes Property and Casualty Insurance, Prudential Securities Capital Markets and exchange shares previously held by Prudential Equity Group.

Financial Advisory

In 2008, we classified our Financial Advisory business as a divested business, reflecting our intention to exit this business. This business consists of our former investment in the Wachovia Securities joint venture, in addition to expenses relating to obligations and costs we retained in connection with the businesses we contributed to the joint venture, primarily for litigation and regulatory matters. On December 31, 2009, we completed the sale of our minority joint venture interest in Wachovia Securities, which includes Wells Fargo Advisors, to Wells Fargo. At the closing, we received $4.5 billion in cash as the purchase price of our joint venture interest and de-recognized the carrying value related to our investment in the joint venture. Results for 2009 include the associated pre-tax gain on the sale of $2.247 billion, which is reflected in Equity in earnings of operating joint ventures, net of taxes in our Consolidated Statements of Operations. Results for 2009 also include certain one-time costs related to the sale of the joint venture interest of $104 million, for pre-tax compensation costs and costs related to increased contributions to our charitable foundation. For more information on our former investment in the Wachovia Securities joint venture, including the lookback option, see Note 7 to the Consolidated Financial Statements, as well as Liquidity and Capital Resources Liquidity and Capital Resources of Subsidiaries Domestic Insurance Subsidiaries Prudential Securities Group.

On August 15, 2008, Wachovia announced that it had reached an agreement in principle for a global settlement of investigations concerning the underwriting, sale and subsequent auction of certain auction rate securities by subsidiaries of Wachovia Securities and had recorded an increase to legal reserves. Our recorded share of pre-tax earnings from the joint venture for the year ended December 31, 2008 included $355 million related to the impact of this item on our share of the equity earnings of the joint venture.

Commercial Mortgage Securitization Operations

In 2008, we classified our commercial mortgage securitization operations as a divested business, reflecting our decision to exit this business. These operations, which involved the origination and purchase of commercial mortgage loans that we in turn would aggregate and sell into commercial mortgage-backed securitization transactions, together with related hedging activities, were previously reported within the Asset Management segment. We retained and continue the remainder of our commercial mortgage origination, servicing and other commercial mortgage related activities, which remain a part of our Asset Management segment. As of December 31, 2009, our commercial mortgage securitization operations held a loan with a principal balance of $14 million, whose fair value continues to be subject to changes in credit spreads. The losses in 2008 and 2009 primarily reflect net realized and unrealized losses on the loans, bonds and hedges from instability in the commercial mortgage-backed securities market.

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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 changes in the fair value of commercial mortgage and other loans) supporting these experience-rated contracts, which are reflected in Interest credited to policyholders account balances. The result of this approach is that adjusted operating income for these products includes net fee revenue and interest spread we earn on these experience-rated contracts, and excludes changes in fair value of the pool of investments, both realized and unrealized, that we expect will ultimately accrue to the contractholders.

Results for the years ended December 31, 2009, 2008 and 2007 include the recognition of net investment gains of $1.601 billion, net investment losses of $1.734 billion, and net investment gains of zero million, respectively, on Trading account assets supporting insurance liabilities, at fair value. These net investment gains and losses primarily represent interest-rate related mark-to-market adjustments, which include the impact of changes in credit spreads on fixed maturity securities. Consistent with our treatment of Realized investment gains (losses), net, these gains and losses, which are expected to ultimately accrue to the contractholders, are excluded from adjusted operating income. In addition, results for the years ended December 31, 2009, 2008 and 2007 include an increase of $899 million, and decreases of $1.163 billion and $13 million, respectively, in contractholder liabilities due to asset value changes in the pool of investments that support these experience-rated contracts. These liability changes are reflected in Interest credited to policyholders account balances and are also excluded from adjusted operating income. Net investment gains and losses net of the increase / decrease in contractholder liabilities due to these asset valuation changes resulted in net gains of $702 million in 2009 and net losses of $571 million in 2008. This primarily reflects timing differences between the recognition of the interest-rate related mark-to-market adjustments and the recognition of the recovery of these mark-to-market adjustments in future periods through subsequent increases in asset values or reductions in crediting rates on contractholder liabilities. Decreases to these contractholder liabilities due to asset value changes are limited by certain floors and therefore do not reflect cumulative declines in recorded asset values of $35 million as of December 31, 2009 and $645 million as of December 31, 2008. We have recovered and expect to recover in future periods these declines in recorded asset values through subsequent increases in recorded asset values or reductions in crediting rates on contractholder liabilities.

In addition, as prescribed by U.S. GAAP, changes in the fair value of commercial mortgage and other loans held in our general account, other than when associated with impairments, are not recognized in income in the current period, while the impact of these changes in value are reflected as a change in the liability to fully participating contractholders in the current period. Included in the amounts above related to the change in the liability to contractholders as a result of commercial mortgage and other loans are increases of $105 million, decreases of $144 million, and increases of $40 million, for the years ended December 31, 2009, 2008 and 2007, respectively.

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Valuation of Assets and Liabilities

Fair Value of Assets and Liabilities

The authoritative guidance related to fair value established a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. See Note 20 to the Consolidated Financial Statements for a description of these levels.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis, as of December 31, 2009 and 2008, split between the Financial Services Businesses and Closed Block Business, by fair value hierarchy level. See Note 20 to the Consolidated Financial Statements for the balances of assets and liabilities measured at fair value on a recurring basis presented on a consolidated basis.

	Financial Services Businesses as of December 31, 2009				
	Level 1	Level 2	Level 3(1)	Netting(2)	Total
			(in millions)		
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$	$ 4,623	$	$	$ 4,623
Obligations of U.S. states and their political subdivisions		789			789
Foreign government bonds		40,481	31		40,512
Corporate securities	5	63,304	534		63,843
Asset-backed securities		2,895	3,753		6,648
Commercial mortgage-backed securities		7,051	305		7,356
Residential mortgage-backed securities		8,823	100		8,923
Sub-total	5	127,966	4,723		132,694
Trading account assets supporting insurance liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies		128			128
Obligations of U.S. states and their political subdivisions		31			31
Foreign government bonds		517			517
Corporate securities		9,419	83		9,502
Asset-backed securities		576	281		857
Commercial mortgage-backed securities		1,888	5		1,893
Residential mortgage-backed securities		1,412	20		1,432
Equity securities	700	232	3		935
Short-term investments and cash equivalents	338	387			725
Sub-total	1,038	14,590	392		16,020
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies		95			95
Obligations of U.S. states and their political subdivisions					
Foreign government bonds		24			24
Corporate securities	15	188	34		237
Asset-backed securities		867	84		951
Commercial mortgage-backed securities		109	27		136
Residential mortgage-backed securities		146	12		158
Equity securities	306	136	24		466
All other activity	13	4,731	297	(4,242)	799
Sub-total	334	6,296	478	(4,242)	2,866
Equity securities, available for sale	1,107	2,336	367		3,810
Commercial mortgage and other loans		114	338		452

Other long-term investments	36	5	498		539
Short-term investments	2,544	2,510			5,054
Cash and cash equivalents	5,502	3,939			9,441
Other assets	2,391	62	16		2,469
Sub-total excluding separate account assets	12,957	157,818	6,812	(4,242)	173,345
Separate account assets(3)	88,888	72,292	12,894		174,074
Total assets	$ 101,845	$ 230,110	$ 19,706	$ (4,242)	$ 347,419
Future policy benefits			55		55
Long-term debt			429		429
Other liabilities		4,764	6	(3,841)	929
Total Liabilities	$	$ 4,764	$ 490	$ (3,841)	$ 1,413

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	Closed Block Business as of December 31, 2009				
	Level 1	Level 2	Level 3(1)	Netting(2)	Total
			(in millions)		
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$	$ 3,645	$	$	$ 3,645
Obligations of U.S. states and their political subdivisions		586			586
Foreign government bonds		681	16		697
Corporate securities		27,335	368		27,703
Asset-backed securities		980	2,610		3,590
Commercial mortgage-backed securities		3,662			3,662
Residential mortgage-backed securities		2,644	4		2,648
Sub-total		39,533	2,998		42,531
Trading account assets supporting insurance liabilities					
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies					
Obligations of U.S. states and their political subdivisions					
Foreign government bonds					
Corporate securities		122			122
Asset-backed securities		27	13		40
Commercial mortgage-backed securities					
Residential mortgage-backed securities					
Equity Securities	5				5
All other activity					
Sub-total	5	149	13		167
Equity securities, available for sale	2,901	158	26		3,085
Commercial mortgage and other loans					
Other long-term investments		61			61
Short-term investments	1,017	321			1,338
Cash and cash equivalents	169	529			698
Other assets		114	11		125
Sub-total excluding separate account assets	4,092	40,865	3,048		48,005
Separate account assets(3)					
Total assets	$ 4,092	$ 40,865	$ 3,048	$	$ 48,005
Future policy benefits					
Long-term debt					
Other liabilities					
Total Liabilities	$	$	$	$	$

(1) The amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 6% and 6% for Financial Services Businesses and Closed Block Business, respectively. Excluding separate account assets for which the risk is borne by the policyholder, the amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 4% for our Financial Services Businesses. The amount of Level 3 liabilities was immaterial to our balance sheet.

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

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

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

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

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

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

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

For additional information regarding the balances of assets and liabilities measured at fair value by hierarchy level see Note 20 to the Consolidated Financial Statements.

The determination of fair value, which for certain assets and liabilities is dependent on the application of estimates and assumptions, can have a significant impact on our results of operations. As discussed in more detail below, the determination of fair value for certain assets and liabilities may require the application of a greater degree of judgment given recent market conditions, as the ability to value assets and liabilities can be significantly impacted by a decrease in market activity or a lack of transactions executed in an orderly manner. For a description of the key estimates and assumptions used in our determination of fair value, see Note 20 to the Consolidated Financial Statements. The following sections provide additional information regarding certain assets and liabilities of our Financial Services Businesses and our Closed Block Business which are valued using Level 3 inputs and could have a significant impact on our results of operations. Information regarding Separate Account Assets is excluded as the risk of assets for these categories is ultimately borne by our customers and policyholders.

Fixed Maturity and Equity Securities

Public fixed maturity securities included in Level 3 in our fair value hierarchy are generally priced based on internally developed valuations or non-binding broker quotes. Despite the dislocated markets and low levels of liquidity in 2008 and 2009, except for our asset-backed securities collateralized by sub-prime mortgages as discussed below, the pricing we received from independent pricing services was not materially different from our internal estimates of current market value for the remainder of our public fixed maturity portfolio. As a result, for public fixed maturity securities we generally continued to use the price provided by the independent pricing services under our normal pricing protocol. Securities with prices based on validated quotes from pricing services are generally reflected within Level 2. For certain private fixed maturity and equity securities, the discounted cash flow or other valuation model uses significant unobservable inputs. Such securities are also included in Level 3 in our fair value hierarchy.

As of December 31, 2009 our Level 3 fixed maturity securities included asset-backed securities collateralized by sub-prime mortgages with a fair value of $5,667 million. As discussed in Note 20 to the Consolidated Financial Statements, we reported fair values for these sub-prime securities which were net $618 million higher than the estimated fair values received from third party pricing services or brokers, based on our determination that as of December 31, 2009, the market for asset-backed securities collateralized by sub-prime mortgages was an inactive market. We considered both third-party pricing information and an internally developed price based on a discounted cash flow model in determining the fair value of certain of these securities. Based on the unobservable inputs used in the discounted cash flow model and the limited observable market activity, these securities were included in Level 3. The $618 million net increase in fair value included $588 million relating to available-for-sale securities, with $350 million related to securities attributable to our Financial Services Businesses and $238 million related to securities attributable to our Closed Block Business. The increase to the fair value of these available-for-sale securities resulted in a corresponding increase, net of taxes, to Accumulated other comprehensive income (loss), net. The remaining $30 million increase in fair value related to trading account assets supporting insurance liabilities in our Financial Services Business, and resulted in a corresponding increase in Asset management fees and other income.

Excluding these asset-backed securities collateralized by sub-prime mortgages, as of December 31, 2009 about $1.1 billion of Level 3 fixed maturity securities were public fixed maturities, with values primarily based on non-binding broker-quotes, and about $1.5 billion were private fixed maturities, with values primarily based on internally developed models. Significant unobservable inputs used included: issue specific credit adjustments, material non-public financial information, management judgment, estimation of future earnings and cash flows, default rate assumptions, liquidity assumptions and non-binding quotes from market makers. These inputs are usually considered unobservable, as not all market participants will have access to this data.

As of December 31, 2008 we classified approximately $122 million of our investments in asset-backed securities collateralized by sub-prime mortgages as Level 3, primarily reflecting securities valued based on non-binding broker quotes. The vast majority of our asset-backed securities collateralized by sub-prime mortgages were valued as of December 31, 2008 using information from independent pricing services, and were included in Level 2. Overall, about half of our Level 3 fixed maturity securities as of December 31, 2008 were public fixed maturities, with values primarily based on non-binding broker-quotes, and about half were private fixed maturities, with values primary based on internally developed models.

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

The impact our determination of fair value for fixed maturity and equity securities has on our results of operations is dependent on our classification of the security as either trading, available for sale, or held to maturity. For our investments classified as trading, the impact of changes in fair value is recorded within Asset management fees and other income. For our investments classified as available for sale, the impact of changes in fair value is recorded as an unrealized gain or loss in Accumulated other comprehensive income (loss), net, a separate component of equity. Our investments classified as held to maturity are carried at amortized cost.

Other Long-Term Investments

The fair value of real estate held in consolidated investment funds is determined through an independent appraisal process. The appraisals generally utilize a discounted cash flow model, following an income approach that incorporates various assumptions including rental revenue, operating expenses and discount rates. These appraisals and the related assumptions are updated at least annually, and incorporate historical property experience and any observable market data, including any market transactions. Since many of the assumptions utilized are unobservable and are considered to be significant inputs to the valuation, the real estate investments within other long-term investments have been reflected within Level 3 in our fair value hierarchy. Consolidated real estate investment funds classified as Level 3 as of December 31, 2009 and December 31, 2008 totaled approximately $0.4 billion and $1.0 billion, respectively. Our direct investment in these funds is not material, and the majority of the assets recorded as a result of the consolidation of these funds is offset by a noncontrolling interest reflected as a separate component of equity. The noncontrolling interest is not considered to be fair value and therefore is not included in fair value reporting above.

Derivative Instruments

Derivatives are recorded at fair value either as assets, within Other trading account assets, or Other long-term investments, or as liabilities, within Other liabilities, except for embedded derivatives which are recorded with the associated host contract. The fair values of derivative contracts are determined based on quoted prices in active exchanges or through the use of valuation models, and are affected by changes in market factors including non-performance risk. The majority of our derivative positions are traded in the over the counter, or OTC, derivative market and are classified within Level 2 in our fair value hierarchy since they have bid and ask prices that are actively quoted or can be readily obtained from external market data providers. Our policy is to use mid-market pricing consistent with our best estimate of fair value.

The bid-ask spreads for OTC derivatives classified within Level 3 of the fair value hierarchy are generally wider than derivatives classified within Level 2 thus requiring more judgment in estimating the mid-market price of such derivatives. Derivatives classified as Level 3 include first-to-default credit basket swaps, look-back equity options and other structured products. These derivatives are valued based upon models with some significant unobservable market inputs or inputs from less actively traded markets. OTC derivatives classified within Level 3 are validated through periodic comparison of our fair values to broker-dealer values. The fair values of OTC derivative assets and liabilities classified as Level 3 totaled approximately $288 million and $6 million, respectively, as of December 31, 2009 and $1.3 billion and $140 million, respectively, as of December 31, 2008, without giving consideration to the impact of netting.

For additional information regarding embedded derivatives in our annuity and retirement products classified as Level 3, see Variable Annuity Optional Living Benefit Features below.

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

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Variable Annuity Optional Living Benefit Features

Our liability for future policy benefits includes general account liabilities for guarantees on variable annuity contracts, including guaranteed minimum accumulation benefits (GMAB), guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum income and withdrawal benefits (GMIWB). While these guarantees primarily relate to the optional living benefit features of our Individual Annuities segment, they are also included in certain variable annuities in our International Insurance segment and certain retirement account based group variable annuities in our Retirement segment. These benefits are accounted for as embedded derivatives and are carried at fair value with changes in fair value included in Realized investment gains (losses), net.

The fair values of the GMAB, GMWB and GMIWB liabilities are calculated as the present value of future expected benefit payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally developed models with option pricing techniques. The significant assumptions utilized in the valuation of the embedded derivatives associated with our optional living benefit features are primarily unobservable; therefore the liability included in future policy benefits has been reflected within Level 3 in our fair value hierarchy.

We are required to incorporate our own risk of non-performance in the valuation of the embedded derivatives associated with our optional living benefit features. Since insurance liabilities are senior to debt, we believe that reflecting the claims-paying ratings of our insurance subsidiaries in the valuation of the liability appropriately takes into consideration our own risk of non-performance. To reflect the market s perception of our own risk of non-performance, we incorporate an additional spread over LIBOR into the discount rate used in the valuations of the embedded derivative liabilities. The additional spread over LIBOR rates incorporated into the discount rate as of December 31, 2009 generally ranged from 75 to 150 basis points for the portion of the interest rate curve most relevant to these liabilities. For 2009, our adjustment for the market s perception of our non-performance risk resulted in a $312 million pre-tax benefit to our Individual Annuities segment, reflecting the additional spread over LIBOR we incorporated into the discount rate used in the valuations of the embedded derivative liabilities beginning in the first quarter of 2009 to reflect changes in the market s perception of our non-performance risk.

In addition, 2009 includes charges of $110 million in our Individual Annuities segment related to an update of the actuarial and capital markets assumptions used in the valuation of the embedded derivatives. These charges were primarily driven by a reduction in the expected lapse rate assumption based on actual experience, partially offset by a further update to our market volatility assumptions to reflect the inclusion of new market inputs, as well as updated assumptions for other actuarial and capital markets inputs. Our market volatility assumptions are no longer based solely on the implied volatility of over-the-counter equity options, but consider an index that is based both on implied and historical market volatilities.

The change in fair value of the GMAB, GMWB and GMIWB resulted in a decrease in the total liability of $3,174 million for 2009, primarily reflecting a decrease in future expected benefit payments, resulting from an increase in policyholder account balance due to equity market appreciation, an increase in LIBOR interest rates used in the discount rate, and the update of our market-perceived non-performance risk assumption discussed above. These changes were significantly offset by increased amortization of deferred policy acquisition and other costs, and changes in value of related hedging instruments, primarily in our Individual Annuities segment as described in more detail under Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

Realized Investment Gains and Losses and General Account Investments

Realized Investment Gains and Losses

Realized investment gains and losses are generated from numerous sources, including the sale of fixed maturity securities, equity securities, investments in joint ventures and limited partnerships and other types of investments, as well as adjustments to the cost basis of investments for other-than-temporary impairments.

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Realized investment gains and losses are also generated from prepayment premiums received on private fixed maturity securities, recoveries of principal on previously impaired securities, provisions for losses on commercial mortgage and other loans, fair value changes on commercial mortgage loans carried at fair value, and fair value changes on embedded derivatives and free-standing derivatives that do not qualify for hedge accounting treatment, except those derivatives used in our capacity as a broker or dealer.

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

The level of other-than-temporary impairments generally reflects economic conditions and is generally expected to increase when economic conditions worsen and to decrease when economic conditions improve. Historically, the causes of other-than-temporary impairments have been specific to each individual issuer and have not directly resulted in impairments to other securities within the same industry or geographic region. However, as discussed in more detail below, certain of the other-than-temporary impairments recognized for the years ended December 31, 2009, 2008 and 2007 relate to asset-backed securities collateralized by sub-prime mortgages and reflect the overall deterioration of the housing market.

We may realize additional credit and interest rate related losses through sales of investments pursuant to our credit risk and portfolio management objectives. In light of unprecedented market conditions, and in consideration of the potential impact on capital and tax positions, beginning in the fourth quarter of 2008 we temporarily curtailed the active trading policy of certain portfolios. In the second quarter of 2009, we resumed a more restricted trading program in these portfolios. Other-than-temporary impairments, interest rate related losses and credit related losses on sales (other than those related to certain of our businesses which primarily originate investments for sale or syndication to unrelated investors) are excluded from adjusted operating income.

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

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

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

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The following tables set forth "Realized investment gains (losses), net," by investment type for the Financial Services Businesses and Closed Block Business, as well as related charges and adjustments associated with the Financial Services Businesses, for the periods indicated. For additional details regarding adjusted operating income, which is our measure of performance for the segments of our Financial Services Businesses, see Note 22 to the Consolidated Financial Statements.

	Year Ended December 31,		
	2009	2008	2007
		(in millions)	
Realized investment gains (losses), net:			
Financial Services Businesses	$ (1,611)	$ (2,414)	$ 24
Closed Block Business	(1,285)	15	589
Consolidated realized investment gains (losses), net	$ (2,896)	$ (2,399)	$ 613
Financial Services Businesses:			
Realized investment gains (losses), net			
Fixed maturity securities	$ (822)	$ (1,646)	$ (64)
Equity securities	(402)	(941)	297
Derivative instruments	171	339	(336)
Other	(558)	(166)	127
Total	(1,611)	(2,414)	24
Related adjustments(1)	(40)	147	(65)
Realized investment gains (losses), net, and related adjustments	$ (1,651)	$ (2,267)	$ (41)
Related charges(2)	$ (88)	$ 45	$ (52)
Closed Block Business:			
Realized investment gains (losses), net			
Fixed maturity securities	$ (381)	$ (451)	$ 182
Equity securities	(473)	(441)	337
Derivative instruments	(298)	958	61
Other	(133)	(51)	9
Total	$ (1,285)	$ 15	$ 589

(1) Related adjustments include that portion of "Realized investment gains (losses), net," that are included in adjusted operating income, including those pertaining to certain derivative contracts, as well as those that represent profit or loss of certain of our businesses which primarily originate investments for sale or syndication to unrelated investors. Related adjustments also include that portion of "Asset management fees and other income" that are excluded from adjusted operating income, including the change in value due to the impact of changes in foreign currency exchange rates during the period on certain assets and liabilities for which we economically hedge the foreign currency exposure, realized and unrealized gains and losses on certain general account investments classified as "other trading account assets," as well as counterparty credit losses on derivative positions. See Note 22 to the Consolidated Financial Statements for additional information on these related adjustments.

(2) Reflects charges that are related to realized investment gains (losses), net, and excluded from adjusted operating income, as described more fully in Note 22 to the Consolidated Financial Statements.

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2009 to 2008 Annual Comparison

Financial Services Businesses

The Financial Services Businesses net realized investment losses in 2009 were $1,611 million, compared to net realized investment losses of $2,414 million in 2008.

Net realized losses on fixed maturity securities were $822 million in 2009, compared to net realized losses of $1,646 million in 2008, as set forth in the following table:

	Year Ended December 31, 2009	2008
	(in millions)	
Realized investment gains (losses) - Fixed Maturity Securities Financial Services Businesses		
Gross realized investment gains:		
Gross gains on sales and maturities	$ 789	$ 466
Private bond prepayment premiums	19	33
Total gross realized investment gains	808	499
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(1)	(1,174)	(1,679)
Gross losses on sales and maturities(2)	(319)	(354)
Credit related losses on sales	(137)	(112)
Total gross realized investment losses	(1,630)	(2,145)
Realized investment gains (losses), net Fixed Maturity Securities	$ (822)	$ (1,646)
Net gains (losses) on sales and maturities Fixed Maturity Investments(2)	$ 470	$ 112

(1) Excludes the portion of 2009 other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Amounts exclude credit related losses through sales of investments pursuant to our credit risk and portfolio management objectives.

Net trading gains on sales and maturities of fixed maturity securities of $470 million in 2009 were primarily due to sales of government bonds in our Gibraltar Life and Japanese Life Planner operations and sales within our Individual Annuities segment. Sales of fixed maturity securities in our Individual Annuities segment were primarily due to transfers of investments out of our general account and into separate accounts relating to an automatic rebalancing element embedded in the living benefit features of some of our variable annuity products. Net trading gains on sales and maturities of fixed maturity investments of $112 million in 2008, were primarily related to sales of government bonds in our Gibraltar Life and Japanese Life Planner operations. None of the gross losses on sales and maturities in 2009 and 2008 related to asset-backed securities collateralized by sub-prime mortgages. See General Account Investments Fixed Maturity Securities Asset-Backed Securities for additional information regarding our exposure to sub-prime mortgages. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in 2009 and 2008.

Net realized losses on equity securities were $402 million in 2009, of which other-than-temporary impairments were $389 million and net trading losses on sales of equity securities were $13 million. Net trading losses in 2009 were primarily due to sales within our Gibraltar Life operations. Net realized losses on equity securities were $941 million in 2008, of which other-than-temporary impairments were $815 million and net trading losses on sales of equity securities were $126 million. Net trading losses in 2008 were primarily due to sales within our Gibraltar Life and Life Planner operations. See below for additional information regarding the other-than-temporary impairments of equity securities in 2009 and 2008.

Net realized gains on derivatives were $171 million in 2009, compared to net realized gains of $339 million in 2008. The net derivative gains in 2009 primarily reflect net gains of $376 million on embedded derivatives associated with certain variable annuity contracts, net of the impact of our hedging program, mainly in our Individual Annuities Segment. This benefit was driven by a market-perceived increase in our own risk of non-performance. For additional information regarding these embedded derivatives and our hedging programs,

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see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities. Also contributing to the net derivative gains in 2009 were gains of $196 million on embedded derivatives associated with certain externally managed investments in the European market and net gains of $87 million on mark-to-market adjustments from credit derivatives. Partially offsetting these gains were net mark-to-market losses of $376 million on interest rate derivatives used to manage duration and net losses of $121 million on currency derivatives used to hedge foreign denominated investments. The net derivative gains in 2008 primarily reflect net mark-to-market gains of $985 million on interest rate derivatives used to manage duration, net gains of $226 million on currency derivatives used to hedge foreign investments in our domestic investment portfolio and net gains of $124 million related to equity market hedges used in our asset management business. Partially offsetting these gains were net mark-to-market losses of $621 million on embedded derivatives associated with certain externally managed investments in the European market and net losses of $456 million on embedded derivatives and related hedge positions associated with certain variable annuity contracts. For information regarding our externally managed investments in the European market, see General Account Investments Fixed Maturity Securities Asset-Backed Securities.

Net realized losses on other investments were $558 million in 2009, primarily related to $317 million of increases to commercial mortgage and other loan loss reserves. The remaining $241 million of net realized losses on other investments was primarily driven by mark-to-market losses on mortgage loans within our commercial mortgage operations and losses on investment real estate in our asset management operations, as well as $48 million of other other-than-temporary impairments on joint ventures and partnerships and real estate investments. Net realized losses on other investments were $166 million in 2008, primarily related to mark-to-market losses on mortgage loans within our divested commercial mortgage securitization operations due to instability in the commercial real estate market during 2008. For additional information regarding our commercial mortgage and other loan loss reserves see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality.

During 2009 we recorded other-than-temporary impairments of $1,611 million in earnings, compared to total other-than-temporary impairments of $2,533 million recorded in earnings in 2008. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the Financial Services Businesses by asset type, and for fixed maturity securities, by reason.

	Year Ended December 31, 2009	2008
	(in millions)	
Other-than-temporary impairments recorded in earnings Financial Services Businesses(1)		
Public fixed maturity securities	$ 1,022	$ 1,549
Private fixed maturity securities	152	130
Total fixed maturity securities	1,174	1,679
Equity securities	389	815
Other invested assets(2)	48	39
Total	$ 1,611	$ 2,533

(1) Excludes the portion of 2009 other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Includes other-than-temporary impairments relating to investment real estate and investments in joint ventures and partnerships.

	Year Ended December 31, 2009		
	Asset-Backed Securities Collateralized By Sub-Prime Mortgages	All Other Fixed Maturity Securities	Total Fixed Maturity Securities
		(in millions)	

Other-than-temporary impairments on fixed maturity securities recorded in earnings Financial Services Businesses(1)			
Due to credit events or adverse conditions of the respective issuer(2)	$ 653	$ 321	$ 974
Due to other accounting guidelines(3)	15	185	200
Total	$ 668	$ 506	$ 1,174

(1) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.
(3) Primarily represents circumstances where we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis and amounts related to foreign currency translation losses for securities approaching maturity.

	Year Ended December 31, 2008		
	Asset-Backed Securities Collateralized By Sub-Prime Mortgages	All Other Fixed Maturity Securities	Total Fixed Maturity Securities
	(in millions)		
Other-than-temporary impairments on fixed maturity securities recorded in earnings Financial Services Businesses			
Due to credit events or adverse conditions of the respective issuer(1)	$ 265	$ 476	$ 741
Due to other accounting guidelines(2)	705	233	938
Total	$ 970	$ 709	$ 1,679

(1) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. In certain of these circumstances the decrease in fair value, at the time the impairment was recorded, was partially driven by general credit spread widening or liquidity concerns and we believe the recoverable value of the investment, based on the expected future cash flows, is greater than the current fair value.
(2) Includes certain circumstances relating to asset-backed securities with a credit rating below AA, where the present value of prospective cash flows of the security have declined, but we do not believe credit events or other adverse conditions of the respective issuers have caused a deficiency in the contractual cash flows related to the investment. Also includes circumstances where we cannot assert our ability or intent to hold for a period of time to allow for a recovery of value. In certain of these circumstances the decrease in fair value, at the time the impairment was recorded, was driven primarily by general credit spread widening or liquidity concerns, and we believe the recoverable value of the investment, based on the expected future cash flows, is greater than the current fair value.

Fixed maturity other-than-temporary impairments in 2009 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and the manufacturing and services sectors of our corporate securities, and were primarily driven by liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers, which have caused, or we believe will lead to, a deficiency in the contractual cash flows related to the investment. Equity security other-than-temporary impairments in 2009 were primarily driven by declines in value of fund shares representing our interest in high yield bond funds of certain of our separate account investments supporting corporate owned life insurance and circumstances where we lack the ability or intent to retain the security to recovery. Fixed maturity other-than-temporary impairments in 2008 were concentrated in asset-backed securities and the finance, services, and manufacturing sectors of our corporate securities, and were primarily driven by credit spread increases, liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. Fixed maturity other-than-temporary impairments in 2008 included $84 million related to the filing of a Chapter 11 bankruptcy petition by Lehman Brothers and $50 million related to American International Group, or AIG. Equity security other-than-temporary impairments in 2008 were primarily driven by overall declines in the Japanese equity markets and value declines in our mutual fund shares representing our interest in high yield bond funds of certain of our separate account investments supporting corporate owned life insurance.

As mentioned above, fixed maturity other-than-temporary impairments in 2008 included $84 million related to the filing of a bankruptcy petition by Lehman Brothers. In addition, 2008 also included a $75 million loss associated with this bankruptcy filing relating to the unsecured portion of our counterparty exposure on derivative transactions we had entered into with Lehman Brothers and its affiliates. We replaced these derivative positions with various other counterparties. The loss was included in Asset management fees and other income, under the broker-dealer accounting model followed by our affiliated derivative subsidiary that executed these transactions, and was excluded from adjusted operating income as a related adjustment to Realized investment gains (losses), net. See Note 22 to the Consolidated Financial Statements for additional information.

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Closed Block Business

For the Closed Block Business, net realized investment losses in 2009 were $1,285 million, compared to net realized investment gains of $15 million in 2008.

Net realized losses on fixed maturity securities were $381 million in 2009, compared to net realized losses of $451 million in 2008, as set forth in the following table:

	Year Ended December 31, 2009	2008
	(in millions)	
Realized investment gains (losses) - Fixed Maturity Securities Closed Block Business		
Gross realized investment gains:		
Gross gains on sales and maturities	$ 199	$ 537
Private bond prepayment premiums	19	27
Total gross realized investment gains	218	564
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(1)	(520)	(718)
Gross losses on sales and maturities(2)	(72)	(259)
Credit related losses on sales	(7)	(38)
Total gross realized investment losses	(599)	(1,015)
Realized investment gains (losses), net Fixed Maturity Securities	$ (381)	$ (451)
Net gains (losses) on sales and maturities Fixed Maturity Investments(2)	$ 127	$ 278

(1) Excludes the portion of 2009 other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Amounts exclude credit related losses through sales of investments pursuant to our credit risk and portfolio management objectives.

Net gains on sales and maturities of fixed maturity securities of $127 million in 2009 were primarily due to sales related to our total return strategy. Gross losses on sales and maturities of fixed maturity securities of $72 million in 2009, declined in comparison to $259 million of such losses in 2008, primarily due to the restriction of our active trading policies, as discussed below. There were no gross losses on sales or maturities in 2009 or 2008 related to asset-backed securities collateralized by sub-prime mortgages. In light of the unprecedented market conditions and in consideration of the potential impact on capital and tax positions, beginning in the fourth quarter of 2008 we curtailed our active trading policy. Starting in the second quarter of 2009, we resumed a more restricted trading program in these portfolios. These restrictions resulted in a lower level of realized gains and losses in this portfolio than might otherwise have been incurred. Net gains on sales and maturities of fixed maturity securities of $278 million in 2008 were also primarily due to sales related to our total return strategy. See General Account Investments Fixed Maturity Securities Asset-Backed Securities for additional information regarding our exposure to sub-prime mortgages. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in 2009 and 2008.

Net realized losses on equity securities were $473 million in 2009, of which other-than-temporary impairments were $613 million, partially offset by net trading gains on sales of equity securities of $140 million. These gains reflect improved equity markets throughout 2009 coupled with the current equity trading strategy which produced gains as the year progressed. Net realized losses on equity securities were $441 million in 2008, of which other-than-temporary impairments were $387 million, and net trading losses on sales of equity securities were $54 million. Net trading losses for 2008 reflect sales pursuant to our active management strategy, which was curtailed or partially restricted for 2009, as discussed above. See below for additional information regarding the other-than-temporary impairments of equity securities in 2009 and 2008.

Net realized losses on derivatives were $298 million in 2009, compared to net realized gains of $958 million in 2008. Derivative losses in 2009 primarily reflect net mark-to-market losses of $218 million on interest rate derivatives used to manage the duration of the fixed maturity investment portfolio and net losses of $149 million related to currency derivatives used to hedge foreign denominated investments. Partially offsetting these losses

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were net gains of $52 million on embedded derivatives associated with certain externally managed investments in the European market. Derivative gains in 2008 primarily reflect net mark-to-market gains of $824 million on interest rate derivatives used to manage duration and net gains of $149 million on currency derivatives used to hedge foreign denominated investments. Partially offsetting these gains are net losses of $105 million on embedded derivatives associated with certain externally managed investments in the European market.

Net realized losses on other investments were $133 million in 2009, including $51 million of other-than-temporary impairments on joint ventures and partnerships investments. The remaining $82 million was primarily related to increases to commercial mortgage loan loss reserves. Net realized losses on other investments were $51 million in 2008, including $22 million related to other-than-temporary impairments on joint ventures and partnerships. For additional information regarding our commercial mortgage and other loan loss reserves see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality.

During 2009 we recorded other-than-temporary impairments of $1,184 million in earnings, compared to other-than-temporary impairments of $1,127 million recorded in earnings in 2008. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the Closed Block Business by asset type, and for fixed maturity securities, by reason.

	Year Ended December 31, 2009	2008
	(in millions)	
Other-than-temporary impairments recorded in earnings Closed Block Business(1)		
Public fixed maturity securities	$ 465	$ 690
Private fixed maturity securities	55	28
Total fixed maturity securities	520	718
Equity securities	613	387
Other invested assets(2)	51	22
Total	$ 1,184	$ 1,127

(1) Excludes the portion of 2009 other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Includes other-than-temporary impairments relating to investments in joint ventures and partnerships.

	Year Ended December 31, 2009		
	Asset-Backed Securities Collateralized by Sub-Prime Mortgages	All Other Fixed Maturity Securities	Total Fixed Maturity Securities
		(in millions)	
Other-than-temporary impairments on fixed maturity securities recorded in earnings Closed Block Business(1)			
Due to credit events or adverse conditions of the respective issuer(2)	$ 319	$ 189	$ 508
Due to other accounting guidelines(3)	3	9	12
Total	$ 322	$ 198	$ 520

(1)

Excludes the portion of 2009 other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

(2) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.

(3) Primarily represents circumstances where we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

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	Year Ended December 31, 2008		
	Asset-Backed Securities Collateralized by Sub-Prime Mortgages	All Other Fixed Maturity Securities	Total Fixed Maturity Securities
		(in millions)	
Other-than-temporary impairments on fixed maturity securities recorded in earnings Closed Block Business			
Due to credit events or adverse conditions of the respective issuer(1)	$ 137	$ 179	$ 316
Due to other accounting guidelines(2)	326	76	402
Total	$ 463	$ 255	$ 718

(1) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. In certain of these circumstances the decrease in the fair value, at the time the impairment was recorded, was partially driven by general credit spread widening or liquidity concerns and we believe the recoverable value of the investment, based on the expected future cash flows, is greater than the current fair value.

(2) Includes certain circumstances relating to asset-backed securities with a credit rating below AA, where the present value of prospective cash flows of the security have declined, but we do not believe credit events or other adverse conditions of the respective issuers have caused a deficiency in the contractual cash flows related to the investment. Also includes circumstances where we cannot assert our ability or intent to hold for a period of time to allow for a recovery of value. In certain of these circumstances the decrease in fair value, at the time the impairment was recorded, was driven primarily by general credit spread widening or liquidity concerns, and we believe the recoverable value of the investment, based on the expected future cash flows, is greater than the current fair value.

Fixed maturity other-than-temporary impairments in 2009 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and the manufacturing and services sectors of our corporate securities and were primarily driven by liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers, which have caused, or we believe will lead to, a deficiency in the contractual cash flows related to the investment. Other-than-temporary impairments in 2008 were concentrated in asset-backed securities and the finance, services and manufacturing sectors of our corporate securities and were primarily driven by credit spread increases, liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. Fixed maturity other-than-temporary impairments in 2008 included $16 million related to the filing of a Chapter 11 bankruptcy petition by Lehman Brothers and $30 million related to AIG. Equity security other-than-temporary impairments in 2008 were primarily driven by overall declines in the equity markets. Equity security other-than-temporary impairments in 2009 were primarily based on the extent and duration of the decline in value, as equity markets only partially recovered in the latter portion of 2009.

2008 to 2007 Annual Comparison

Financial Services Businesses

The Financial Services Businesses net realized investment losses in 2008 were $2,414 million, compared to net realized investment gains of $24 million in 2007.

Net realized losses on fixed maturity securities were $1,646 million in 2008, compared to net realized losses of $64 million in 2007, as set forth in the following table:

	Year Ended December 31, 2008	2007
	(in millions)	
Realized investment gains (losses) - Fixed Maturity Securities Financial Services Businesses		
Gross realized investment gains:		
Gross gains on sales and maturities	$ 466	$ 265
Private bond prepayment premiums	33	40
Total	499	305
Gross realized investment losses:		
Gross losses on sales and maturities(1)	(354)	(219)
Other-than-temporary impairments	(1,679)	(139)
Credit related losses on sales	(112)	(11)
Total	(2,145)	(369)
Realized investment gains (losses), net Fixed Maturity Securities	$ (1,646)	$ (64)
Net gains (losses) on sales and maturities Fixed Maturity Investments(1)	$ 112	$ 46

(1) Amounts exclude credit related losses through sales of investments pursuant to our credit risk and portfolio management objectives.

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Gross losses on sales and maturities of fixed maturity securities of $354 million in 2008 were primarily due to lower prices resulting from credit spread widening and liquidity concerns. None of the gross losses on sales and maturities in 2008 related to asset-backed securities collateralized by sub-prime mortgages. Gross losses on sales and maturities of fixed maturity investments of $219 million in 2007, mainly in the Retirement and International Insurance segments, were primarily related to credit spread increases in the credit markets resulting generally from concerns over sub-prime mortgage exposures, and interest rates. The gross losses in 2007 include $76 million related to sales of asset-backed securities collateralized by sub-prime mortgages, primarily in the second half of 2007. See General Account Investments Fixed Maturity Securities Asset-Backed Securities for additional information regarding our exposure to sub-prime mortgages. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in 2008 and 2007.

Net realized losses on equity securities were $941 million in 2008, of which net trading losses on sales of equity securities were $126 million, and other-than-temporary impairments were $815 million. Net trading losses were primarily due to sales within our Gibraltar Life and Life Planner operations. Net realized gains on equity securities were $297 million in 2007, of which net trading gains on sales of equity securities were $340 million, partially offset by other-than-temporary impairments of $43 million. Net realized gains on equity securities in 2007 were primarily due to sales of Japanese equities in our Gibraltar Life and Japanese Life Planner operations from portfolio restructuring and equity sales in our Korean Life Planner operations. See below for additional information regarding the other-than-temporary impairments of equity securities in 2008 and 2007.

Net realized gains on derivatives were $339 million in 2008, compared to net realized losses of $336 million in 2007. The net derivative gains in 2008 primarily reflect net mark-to-market gains of $985 million on interest rate derivatives used to manage duration, net gains of $226 million on currency derivatives used to hedge foreign investments in our domestic investment portfolio and net gains of $124 million related to equity market hedges used in our asset management business. Partially offsetting these gains were net mark-to-market losses of $621 million on embedded derivatives associated with certain externally managed investments in the European market and net losses of $456 million on embedded derivatives and related hedge positions associated with certain variable annuity contracts. The net derivative losses in 2007 primarily reflect net losses of $171 million on embedded derivatives associated with certain externally managed investments in the European market, net losses of $66 million from interest rate derivative contracts mainly used to manage the duration of the U.S. dollar fixed maturity investment portfolio, and net losses of $77 million due to the impact of increased credit spreads on credit derivatives used to enhance the return on our investment portfolio by creating credit exposure. For information regarding our externally managed investments in the European market, see General Account Investments Fixed Maturity Securities Asset-Backed Securities.

Net realized losses on other investments were $166 million in 2008, primarily related to mark-to-market losses on mortgage loans within our divested commercial mortgage securitization operations due to instability in the commercial mortgage-backed securities market during 2008. For additional information regarding these operations, see Divested Businesses. Net realized losses on other investments in 2008 included $39 million of other-than-temporary impairments on investments in joint ventures and partnerships. Net realized gains on other investments were $127 million in 2007, primarily related to gains from real estate related investments.

During 2008 we recorded total other-than-temporary impairments of $2,533 million attributable to the Financial Services Businesses, compared to total other-than-temporary impairments of $185 million attributable to the Financial Services Businesses in 2007. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments attributable to the Financial Services Businesses by asset type, and for fixed maturity securities, by reason.

	Year Ended December 31,	
	2008	2007
	(in millions)	
Other-than-temporary impairments Financial Services Businesses		
Public fixed maturity securities	$ 1,549	$ 123
Private fixed maturity securities	130	16

Total fixed maturity securities	1,679	139
Equity securities	815	43
Other invested assets(1)	39	3
Total	$ 2,533	$ 185

(1) Includes other-than-temporary impairments relating to real estate investments and investments in joint ventures and partnerships.

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	Year Ended December 31, 2008		
	Asset-Backed Securities Collateralized By Sub-Prime Mortgages	All Other Fixed Maturity Securities	Total Fixed Maturity Securities
		(in millions)	
Other-than-temporary impairments on fixed maturity securities Financial Services Businesses			