PRUDENTIAL FINANCIAL INC
Form 10-Q
November 05, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2010

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	**(I.R.S. Employer**
Incorporation or Organization)	**Identification Number)**

751 Broad Street

Newark, New Jersey 07102

(973) 802-6000

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

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

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

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

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

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

As of October 31, 2010, 465 million shares of the registrant s Common Stock (par value $0.01) were outstanding. In addition, 2 million shares of the registrant s Class B Stock, for which there is no established public trading market, were outstanding.

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Forward-Looking Statements

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

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

PART I FINANCIAL INFORMATION

ITEM 1. Financial Statements

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Financial Position

September 30, 2010 and December 31, 2009 (in millions, except share amounts)

	September 30, 2010	December 31, 2009
ASSETS		
Fixed maturities, available for sale, at fair value (amortized cost: 2010 $184,586; 2009 $174,251)(1)	$ 197,189	$ 175,225
Fixed maturities, held to maturity, at amortized cost (fair value: 2010 $5,522; 2009 $5,198)(1)	5,233	5,120
Trading account assets supporting insurance liabilities, at fair value(1)	17,750	16,020
Other trading account assets, at fair value	5,676	3,033
Equity securities, available for sale, at fair value (cost: 2010 $6,368; 2009-$6,106)	7,272	6,895
Commercial mortgage and other loans (includes $418 and $479 measured at fair value under the fair value option at September 30, 2010 and December 31, 2009, respectively)(1)	31,924	31,384
Policy loans	10,544	10,146
Other long-term investments (includes $244 million and $0 million measured at fair value under the fair value option at September 30, 2010 and December 31, 2009, respectively)(1)	6,130	5,904
Short-term investments	5,677	6,825
Total investments	287,395	260,552
Cash and cash equivalents(1)	11,973	13,164
Accrued investment income(1)	2,416	2,322
Deferred policy acquisition costs	15,054	14,578
Other assets(1)	15,623	15,513
Separate account assets(1)	194,463	174,074
Total Assets	$ 526,924	$ 480,203
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	$ 133,660	$ 125,707
Policyholders account balances	105,298	101,666
Policyholders dividends	4,384	1,254
Securities sold under agreements to repurchase	5,934	6,033
Cash collateral for loaned securities	2,465	3,163

Income taxes		7,058		4,014
Short-term debt		2,572		3,122
Long-term debt (includes $0 and $429 measured at fair value under the fair value option at September 30, 2010 and December 31, 2009, respectively)		22,337		21,037
Other liabilities(1)		14,685		14,404
Separate account liabilities(1)		194,463		174,074
Total liabilities		492,856		454,474
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 15)				
EQUITY				
Preferred Stock ($.01 par value; 10,000,000 shares authorized; none issued)		0		0
Common Stock ($.01 par value; 1,500,000,000 shares authorized; 641,762,159 and 641,762,089 shares issued at September 30, 2010 and December 31, 2009, respectively)		6		6
Class B Stock ($.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at September 30, 2010 and December 31, 2009, respectively)		0		0
Additional paid-in capital		23,222		23,235
Common Stock held in treasury, at cost (176,812,357 and 179,650,931 shares at September 30, 2010 and December 31, 2009, respectively)		(11,205)		(11,390)
Accumulated other comprehensive income (loss)		4,729		(443)
Retained earnings		16,794		13,787
Total Prudential Financial, Inc. equity		33,546		25,195
Noncontrolling interests		522		534
Total equity		34,068		25,729
TOTAL LIABILITIES AND EQUITY	$	526,924	$	480,203

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

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Operations

Three and Nine Months Ended September 30, 2010 and 2009 (in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
REVENUES				
Premiums	$ 4,654	$ 4,100	$ 13,500	$ 12,321
Policy charges and fee income	761	613	2,436	2,052
Net investment income	3,018	2,854	8,806	8,534
Asset management fees and other income	1,500	1,420	3,362	3,617
Realized investment gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(435)	(398)	(2,198)	(3,497)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	345	38	1,715	2,033
Other realized investment gains (losses), net	119	(84)	2,687	(1,113)
Total realized investment gains (losses), net	29	(444)	2,204	(2,577)
Total revenues	9,962	8,543	30,308	23,947
BENEFITS AND EXPENSES				
Policyholders benefits	4,538	3,925	13,668	12,152
Interest credited to policyholders account balances	1,174	1,317	3,640	3,585
Dividends to policyholders	512	566	1,547	842
General and administrative expenses	1,998	1,887	7,169	6,527
Total benefits and expenses	8,222	7,695	26,024	23,106
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,740	848	4,284	841
Income tax expense (benefit)	520	(153)	1,306	(318)
INCOME FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,220	1,001	2,978	1,159
Equity in earnings of operating joint ventures, net of taxes	14	31	33	30
INCOME FROM CONTINUING OPERATIONS	1,234	1,032	3,011	1,189
Income from discontinued operations, net of taxes	8	0	6	26
NET INCOME	1,242	1,032	3,017	1,215
Less: Loss attributable to noncontrolling interests	(2)	(50)	(1)	(44)
NET INCOME ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC	$ 1,244	$ 1,082	$ 3,018	$ 1,259
EARNINGS PER SHARE (See Note 8)				
Financial Services Businesses				
Basic:				

Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock	$ 2.48	$ 2.36	$ 5.37	$ 3.68
Income from discontinued operations, net of taxes	0.02	0.00	0.01	0.06
Net income attributable to Prudential Financial, Inc. per share of Common Stock	$ 2.50	$ 2.36	$ 5.38	$ 3.74
Diluted:				
Income from continuing operations attributable to Prudential Financial, Inc. per share of Common Stock	$ 2.45	$ 2.35	$ 5.30	$ 3.66
Income from discontinued operations, net of taxes	0.01	0.00	0.01	0.06
Net income attributable to Prudential Financial, Inc. per share of Common Stock	$ 2.46	$ 2.35	$ 5.31	$ 3.72
Closed Block Business				
Basic and Diluted:				
Income (loss) from continuing operations attributable to Prudential Financial, Inc. per share of Class B Stock	$ 33.50	$ (10.00)	$ 243.50	$ (199.00)
Income from discontinued operations, net of taxes	0.50	0.00	0.50	0.00
Net income (loss) attributable to Prudential Financial, Inc. per share of Class B Stock	$ 34.00	$ (10.00)	$ 244.00	$ (199.00)

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Equity(1)

Nine Months Ended September 30, 2010 and 2009 (in millions)

	Prudential Financial, Inc. Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance December 31, 2009	$ 6	$ 23,235	$ 13,787	$ (11,390)	$ (443)	$ 25,195	$ 534	$ 25,729
Contributions from noncontrolling interests							6	6
Distributions to noncontrolling interests							(19)	(19)
Consolidations/deconsolidations of noncontrolling interests		(2)				(2)	(1)	(3)
Stock-based compensation programs		(11)	(11)	185		163		163
Comprehensive income:								
Net income			3,018			3,018	(1)	3,017
Other comprehensive income, net of tax					5,172	5,172	3	5,175
Total comprehensive income						8,190	2	8,192
Balance, September 30, 2010	$ 6	$ 23,222	$ 16,794	$ (11,205)	$ 4,729	$ 33,546	$ 522	$ 34,068

	Prudential Financial, Inc. Equity							
	Common Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held In Treasury	Accumulated Other Comprehensive Income (loss)	Total Prudential Financial, Inc. Equity	Noncontrolling Interests	Total Equity
Balance, December 31, 2008	$ 6	$ 22,001	$ 10,426	$ (11,655)	$ (7,343)	$ 13,435	$ 351	$ 13,786
Common Stock issued		1,391				1,391		1,391
Contributions from noncontrolling interests							275	275
Distributions to noncontrolling interests							(16)	(16)
Stock-based compensation programs		(44)	(57)	213		112		112
Impact of adoption of guidance for other-than-temporary impairments of debt securities, net of taxes			659		(659)	0		0
Comprehensive income:								
Net income			1,259			1,259	(44)	1,215
Other comprehensive income (loss), net of tax					8,101	8,101	(17)	8,084
Total comprehensive income (loss)						9,360	(61)	9,299
Balance, September 30, 2009	$ 6	$ 23,348	$ 12,287	$ (11,442)	$ 99	$ 24,298	$ 549	$ 24,847

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

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Cash Flows

Nine Months Ended September 30, 2010 and 2009 (in millions)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,017	$ 1,215
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses, net	(2,204)	2,577
Policy charges and fee income	(705)	(850)
Interest credited to policyholders account balances	3,639	3,585
Depreciation and amortization	(56)	158
Gains on trading account assets supporting insurance liabilities, net	(720)	(1,527)
Change in:		
Deferred policy acquisition costs	(829)	(824)
Future policy benefits and other insurance liabilities	3,115	1,867
Other trading account assets	(669)	170
Income taxes	(1,539)	(602)
Other, net	1,555	(1,066)
Cash flows from operating activities	4,604	4,703
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available for sale	20,703	33,442
Fixed maturities, held to maturity	333	281
Trading account assets supporting insurance liabilities and other trading account assets	31,169	24,142
Equity securities, available for sale	1,898	1,422
Commercial mortgage and other loans	3,067	2,810
Policy loans	1,263	1,254
Other long-term investments	750	866
Short-term investments	16,522	21,182
Payments for the purchase/origination of:		
Fixed maturities, available for sale	(27,860)	(31,079)
Fixed maturities, held to maturity	(155)	(1,077)
Trading account assets supporting insurance liabilities and other trading account assets	(31,592)	(25,706)
Equity securities, available for sale	(1,872)	(887)
Commercial mortgage and other loans	(3,530)	(2,186)
Policy loans	(1,163)	(1,174)
Other long-term investments	(641)	(866)
Short-term investments	(15,436)	(23,611)
Other, net	414	(209)
Cash flows used in investing activities	(6,130)	(1,396)
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholders account deposits	16,840	18,420
Policyholders account withdrawals	(16,944)	(20,166)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	(515)	(929)
Proceeds from the issuance of Common Stock	0	1,391
Cash dividends paid on Common Stock	(42)	(39)
Net change in financing arrangements (maturities 90 days or less)	554	(4,648)
Common Stock reissued for exercise of stock options	78	39

Proceeds from the issuance of debt (maturities longer than 90 days)	2,623	5,151
Repayments of debt (maturities longer than 90 days)	(2,544)	(6,235)
Excess tax benefits from share-based payment arrangements	11	0
Other, net	197	569
Cash flows from (used in) financing activities	258	(6,447)
Effect of foreign exchange rate changes on cash balances	77	83
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,191)	(3,057)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	13,164	15,028
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 11,973	$ 11,971
NON-CASH TRANSACTIONS DURING THE PERIOD		
Treasury Stock shares issued for stock-based compensation programs	$ 70	$ 97

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

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

Basis of Presentation

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

In the opinion of management, all adjustments necessary for a fair statement of the financial position and results of operations have been made. All such adjustments are of a normal, recurring nature. Interim results are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the Company s Audited Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009.

Use of Estimates

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

The most significant estimates include those used in determining deferred policy acquisition costs and related amortization; valuation of business acquired and its amortization; amortization of sales inducements; measurement of goodwill and any related impairment; valuation of investments including derivatives and the recognition of other-than-temporary impairments; future policy benefits including guarantees; pension and other postretirement benefits; provision for income taxes and valuation of deferred tax assets; and reserves for contingent liabilities, including reserves for losses in connection with unresolved legal matters.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Reclassifications

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

2. SIGNIFICANT ACCOUNTING POLICIES AND PRONOUNCEMENTS

Investments in Debt and Equity Securities

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

Fixed maturities are comprised of bonds, notes and redeemable preferred stock. Fixed maturities classified as available for sale are carried at fair value. See Note 13 for additional information regarding the determination of fair value. Fixed maturities that the Company has both the positive intent and ability to hold to maturity are carried at amortized cost and classified as held to maturity. The amortized cost of fixed maturities is adjusted for amortization of premiums and accretion of discounts to maturity. Interest income, as well as the related amortization of premium and accretion of discount, is included in Net investment income under the effective yield method. For mortgage-backed and asset-backed securities, the effective yield is based on estimated cash flows, including prepayment assumptions based on data from widely accepted third-party data sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral, including default rates and changes in value. These assumptions can significantly impact income recognition and the amount of other-than-temporary impairments recognized in earnings and other comprehensive income. For high credit quality mortgage-backed and asset-backed securities (those rated AA or above), cash flows are provided quarterly, and the amortized cost and effective yield of the security are adjusted as necessary to reflect historical prepayment experience and changes in estimated future prepayments. The adjustments to amortized cost are recorded as a charge or credit to net investment income in accordance with the retrospective method. For asset-backed and mortgage-backed securities rated below AA, the effective yield is adjusted prospectively for any changes in estimated cash flows. See the discussion below on realized investment gains and losses for a description of the accounting for impairments, as well as the impact of the Company s adoption on January 1, 2009 of new authoritative guidance for the recognition and presentation of other-than-temporary impairments for debt securities. Unrealized gains and losses on fixed maturities classified as available for sale, net of tax, and the effect on deferred policy acquisition costs, valuation of business acquired, deferred sales inducements, future policy benefits and policyholders dividends that would result from the realization of unrealized gains and losses, are included in Accumulated other comprehensive income (loss).

Trading account assets supporting insurance liabilities, at fair value includes invested assets that support certain products included in the Retirement segment, as well as certain products included in the International Insurance segment, which are experience rated, meaning that the investment results associated with these products are expected to ultimately accrue to contractholders. Realized and unrealized gains and losses

for these investments are reported in Asset management fees and other income. Interest and dividend income from these investments is reported in Net investment income.

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

Equity securities available for sale are comprised of common stock, mutual fund shares, non-redeemable preferred stock, and perpetual preferred stock, and are carried at fair value. The associated unrealized gains and

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

the net present value if it believes that the security is dependent on the liquidation of collateral for recovery of its investment. If the net present value is less than the amortized cost of the investment, an other-than-temporary impairment is recognized. In addition to the above mentioned circumstances, the Company also recognizes an other-than-temporary impairment in earnings when a foreign currency denominated security in an unrealized loss position approaches maturity.

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

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

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

Derivative Financial Instruments

Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices or the values of securities or commodities. Derivative financial instruments generally used by the Company include swaps, futures, forwards and options and

may be exchange-traded or contracted in the over-the-counter market. Derivative positions are carried at fair value, generally by obtaining quoted market prices or through the use of valuation models. Values can be affected by changes in interest rates, foreign

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

exchange rates, financial indices, values of securities or commodities, credit spreads, market volatility, expected returns and liquidity. Values can also be affected by changes in estimates and assumptions, including those related to counterparty behavior and non-performance risk used in valuation models.

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

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

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

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

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

The Company formally documents at inception all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as fair value, cash

flow, or foreign currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. Hedges of a net investment in a foreign operation are linked to the specific foreign operation.

When a derivative is designated as a fair value hedge and is determined to be highly effective, changes in its fair value, along with changes in the fair value of the hedged asset or liability (including losses or gains on firm

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

commitments), are reported on a net basis in the income statement, generally in Realized investment gains (losses), net. When swaps are used in hedge accounting relationships, periodic settlements are recorded in the same income statement line as the related settlements of the hedged items.

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

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

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

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

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

The Company is a party to financial instruments that contain derivative instruments that are embedded in the financial instruments. At inception, the Company assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (i.e., the host contract) and whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative

possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and (2) a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and changes in its fair value are included in Realized investment gains (losses), net. For certain financial

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

instruments that contain an embedded derivative that otherwise would need to be bifurcated and reported at fair value, the Company may elect to classify the entire instrument as a trading account asset and report it within Other trading account assets, at fair value.

Adoption of New Accounting Pronouncements

In March 2010, the FASB issued updated guidance that amends and clarifies the accounting for credit derivatives embedded in interests in securitized financial assets. This new guidance eliminates the scope exception for embedded credit derivatives (except for those that are created solely by subordination) and provides new guidance on how the evaluation of embedded credit derivatives is to be performed. This new guidance is effective for the first interim reporting period beginning after June 15, 2010. The Company s adoption of this guidance effective with the interim reporting period ending September 30, 2010 did not have a material effect on the Company s consolidated financial position, results of operations, and financial statement disclosures.

In January 2010, the FASB issued updated guidance that requires new fair value disclosures about significant transfers between Level 1 and 2 measurement categories and separate presentation of purchases, sales, issuances, and settlements within the roll forward of Level 3 activity. Also, this updated fair value guidance clarifies the disclosure requirements about level of disaggregation and valuation techniques and inputs. This new guidance is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements in the roll forward of Level 3 activity, which are effective for interim and annual reporting periods beginning after December 15, 2010. The Company adopted the effective portions of this guidance on January 1, 2010. The required disclosures are provided in Note 13. The Company will provide the required disclosures about purchases, sales, issuances, and settlements in the roll forward of Level 3 activity in the interim reporting period ending March 31, 2011.

In June 2009, the FASB issued authoritative guidance which changes the analysis required to determine whether or not an entity is a variable interest entity (VIE). In addition, the guidance changes the determination of the primary beneficiary of a VIE from a quantitative to a qualitative model. Under the new qualitative model, the primary beneficiary must have both the ability to direct the activities of the VIE and the obligation to absorb either losses or gains that could be significant to the VIE. This guidance also changes when reassessment is needed, as well as requires enhanced disclosures, including the effects of a company s involvement with a VIE on its financial statements. This guidance is effective for interim and annual reporting periods beginning after November 15, 2009. In February 2010, the FASB issued updated guidance which defers, except for disclosure requirements, the impact of this guidance for entities that (1) possess the attributes of an investment company, (2) do not require the reporting entity to fund losses, and (3) are not financing vehicles or entities that were formerly classified as qualified special purpose entities (QSPE s). The Company s adoption of this guidance effective January 1, 2010 did not have a material effect on the Company s consolidated financial position and results of operations. The disclosures required by this revised guidance are provided in Note 5.

In June 2009, the FASB issued authoritative guidance which changes the accounting for transfers of financial assets, and is effective for transfers of financial assets occurring in interim and annual reporting periods beginning after November 15, 2009. It removes the concept of a QSPE from the guidance for transfers of financial assets and removes the exception from applying the guidance for consolidation of variable interest entities to qualifying special-purpose entities. It changes the criteria for achieving sale accounting when transferring a financial asset and changes the initial recognition of retained beneficial interests. The guidance also defines participating interest to establish specific conditions for reporting a transfer of a portion of a financial asset as a sale. The Company s adoption of this guidance effective January 1, 2010 did not have a material

effect on the Company s consolidated financial position, results of operations, and financial statement disclosures.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Future Adoption of New Accounting Pronouncements

In October 2010, the FASB issued guidance to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. Under the new guidance acquisition costs are to include only those costs that are directly related to the acquisition or renewal of insurance contracts by applying a model similar to the accounting for loan origination costs. An entity may defer incremental direct costs of contract acquisition that are incurred in transactions with independent third parties or employees as well as the portion of employee compensation costs related to underwriting, policy issuance and processing, medical inspection, and contract selling for successfully negotiated contracts. Additionally, an entity may capitalize as a deferred acquisition cost only those advertising costs meeting the capitalization criteria for direct-response advertising. This change is effective for fiscal years beginning after December 15, 2011 and interim periods within those years. Early adoption as of the beginning of a fiscal year is permitted. The guidance is to be applied prospectively upon the date of adoption, with retrospective application permitted, but not required. The Company will adopt this guidance effective January 1, 2012. The Company is currently assessing the impact of the guidance on the Company s consolidated financial position, results of operations, and financial statement disclosures.

In July 2010, the FASB issued updated guidance that requires enhanced disclosures related to the allowance for credit losses and the credit quality of a company s financing receivable portfolio. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The Company will provide the required disclosures in the annual reporting period ending December 31, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning after December 15, 2010. The Company will provide these required disclosures in the interim reporting period ending March 31, 2011.

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

3. ACQUISITIONS AND DISPOSITIONS

Agreement to Acquire AIG Star Life Insurance Co., Ltd., AIG Edison Life Insurance Company and Related Entities from AIG

On September 30, 2010, Prudential Financial entered into a stock purchase agreement with American International Group, Inc. (AIG), pursuant to which Prudential Financial agreed to acquire, directly or through one or more of its subsidiaries, all of the issued and outstanding shares of preferred and common stock of AIG Star Life Insurance Co., Ltd., AIG Edison Life Insurance Company, AIG Financial Assurance Japan K.K., and AIG Edison Service Co., Ltd. for a total purchase price of $4.8 billion. The total purchase price of $4.8 billion is comprised of approximately $4.2 billion in cash and $0.6 billion in assumed third party debt, substantially all of which is expected to be repaid with excess capital of the acquired entities. All acquired entities are Japanese corporations and their businesses are in Japan. The transaction, which is expected to close in the first quarter of 2011, is subject to certain governmental approvals, including Japanese anti-competition approvals (or expirations of waiting periods) and Japanese insurance regulatory approvals, as well as other customary conditions to closing, including the execution and delivery of related transaction documents.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Sale of investment in Wachovia Securities

On December 31, 2009, the Company completed the sale of its minority joint venture interest in Wachovia Securities Financial Holdings, LLC (Wachovia Securities), which includes Wells Fargo Advisors, to Wells Fargo & Company (Wells Fargo). The Company s minority joint venture interest in Wachovia Securities originated as a result of the Company combining its retail securities brokerage and clearing operations with those of Wachovia Corporation (Wachovia) in 2003. On December 31, 2008, Wachovia merged with and into Wells Fargo, which succeeded to Wachovia s rights and obligations under the joint venture arrangements. At the closing, the Company received $4.5 billion in cash as the purchase price of its joint venture interest and de-recognized the carrying value of its investment in the joint venture and the carrying value of the associated lookback option. The pre-tax gain on sale recognized by the Company was $2.247 billion and was reflected in Equity in earnings of operating joint ventures, net of taxes.

Acquisition of Yamato Life

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

Discontinued Operations

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Korean asset management operations	$ 3	$ 4	$ 35	$ 15
Equity sales, trading and research operations	0	1	0	2
Real estate investments sold or held for sale	1	(6)	5	22
Mexican asset management operations	6	0	6	(1)
Healthcare operations	1	0	1	0
International securities operations	0	0	(1)	1

Income (loss) from discontinued operations before income taxes	11	(1)	46	39
Income tax expense (benefit)	3	(1)	40	13
Income from discontinued operations, net of taxes	$ 8	$ 0	$ 6	$ 26

In the first quarter of 2010, the Company signed a definitive agreement to sell Prudential Investment & Securities Co. Ltd. and Prudential Asset Management Co. Ltd., which together comprise the Company s Korean asset management operations. This transaction closed in the second quarter of 2010. Included within the table above for the nine months ended September 30, 2010, is an after-tax loss of $5 million recorded in connection with the sale of these operations, consisting of a pre-tax gain of $29 million and income tax expense of $34 million. Certain tax benefits related to the sale were recognized in the fourth quarter of 2009 as a result of the change in repatriation assumption of the earnings in these operations.

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

	September 30, 2010	December 31, 2009
	(in millions)	
Total assets	$ 112	$ 937
Total liabilities	$ 62	$ 556

4. INVESTMENTS

Fixed Maturities and Equity Securities

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

	September 30, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value	Other-than-temporary impairments in AOCI(3)
Fixed maturities, available for sale					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 9,774	$ 1,428	$ 43	$ 11,159	$ 0
Obligations of U.S. states and their political subdivisions	1,895	145	3	2,037	0
Foreign government bonds	45,544	4,341	20	49,865	0
Corporate securities	93,631	9,284	1,935	100,980	(28)
Asset-backed securities(1)	12,379	240	2,124	10,495	(1,679)
Commercial mortgage-backed securities	11,526	858	61	12,323	3
Residential mortgage-backed securities(2)	9,837	562	69	10,330	(12)
Total fixed maturities, available for sale	$ 184,586	$ 16,858	$ 4,255	$ 197,189	$ (1,716)

Equity securities, available for sale	$ 6,368	$ 1,083	$ 179	$ 7,272

(1) Includes credit tranched securities collateralized by sub-prime mortgages, auto loans, credit cards, education loans, and other asset types.
(2) Includes publicly traded agency pass-through securities and collateralized mortgage obligations.
(3) Represents the amount of other-than-temporary impairment losses in Accumulated other comprehensive income (loss), or AOCI, which were not included in earnings. Amount excludes $542 million of net unrealized gains on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	September 30, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value	Other-than-temporary impairments in AOCI(3)
Fixed maturities, held to maturity					
Foreign government bonds	$ 1,164	$ 120	$ 0	$ 1,284	$ 0
Corporate securities	1,011	8	94	925	0
Asset-backed securities(1)	1,185	62	0	1,247	0
Commercial mortgage-backed securities	474	116	0	590	0
Residential mortgage-backed securities(2)	1,399	77	0	1,476	0
Total fixed maturities, held to maturity	$ 5,233	$ 383	$ 94	$ 5,522	$ 0

(1) Includes credit tranched securities collateralized by auto loans, credit cards, education loans, and other asset types.
(2) Includes publicly traded agency pass-through securities and collateralized mortgage obligations.
(3) Represents the amount of other-than-temporary impairment losses in Accumulated other comprehensive income (loss), or AOCI, which were not included in earnings.

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value	Other-than-temporary impairments in AOCI(3)
Fixed maturities, available for sale					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 8,254	$ 384	$ 370	$ 8,268	$ 0
Obligations of U.S. states and their political subdivisions	1,389	28	42	1,375	0
Foreign government bonds(4)	40,627	1,569	142	42,054	0
Corporate securities(4)	89,083	4,357	2,739	90,701	(43)
Asset-backed securities(1)	12,587	155	2,504	10,238	(1,716)
Commercial mortgage-backed securities	11,036	202	220	11,018	1
Residential mortgage-backed securities(2)	11,275	428	132	11,571	(11)
Total fixed maturities, available for sale	$ 174,251	$ 7,123	$ 6,149	$ 175,225	$ (1,769)
Equity securities, available for sale	$ 6,106	$ 1,014	$ 225	$ 6,895	

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

(2) Includes publicly traded agency pass-through securities and collateralized mortgage obligations.
(3) Represents the amount of other-than-temporary impairment losses in "Accumulated other comprehensive income (loss)," or "AOCI," which were not included in earnings. Amount excludes $540 million of net unrealized gains on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.
(4) Includes reclassifications to conform to current period presentation.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	December 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value	Other-than-temporary impairments in AOCI(3)
Fixed maturities, held to maturity					
Foreign government bonds	$ 1,058	$ 25	$ 1	$ 1,082	$ 0
Corporate securities	876	1	126	751	0
Asset-backed securities(1)	1,112	16	3	1,125	0
Commercial mortgage-backed securities	460	104	0	564	0
Residential mortgage-backed securities(2)	1,614	65	3	1,676	0
Total fixed maturities, held to maturity	$ 5,120	$ 211	$ 133	$ 5,198	$ 0

(1) Includes credit tranched securities collateralized by auto loans, credit cards, education loans, and other asset types.
(2) Includes publicly traded agency pass-through securities and collateralized mortgage obligations.
(3) Represents the amount of other-than-temporary impairment losses in Accumulated other comprehensive income (loss), or AOCI, which were not included in earnings.

The amortized cost and fair value of fixed maturities by contractual maturities at September 30, 2010, are as follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value (in millions)	Amortized Cost	Fair Value
Due in one year or less	$ 8,477	$ 8,596	$ 0	$ 0
Due after one year through five years	36,709	38,431	0	0
Due after five years through ten years	37,666	41,136	218	222
Due after ten years	67,992	75,878	1,957	1,987
Asset-backed securities	12,379	10,495	1,185	1,247
Commercial mortgage-backed securities	11,526	12,323	474	590
Residential mortgage-backed securities	9,837	10,330	1,399	1,476
Total	$ 184,586	$ 197,189	$ 5,233	$ 5,522

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Fixed maturities, available for sale				
Proceeds from sales	$ 2,562	$ 3,354	$ 8,961	$ 19,997
Proceeds from maturities/repayments	3,986	4,916	11,762	13,342
Gross investment gains from sales, prepayments, and maturities	218	150	485	779
Gross investment losses from sales and maturities	(46)	(98)	(165)	(474)
Fixed maturities, held to maturity				
Gross investment gains from prepayments	$ 0	$ 0	$ 0	$ 0
Proceeds from maturities/repayments	108	113	332	281
Fixed maturity and equity security impairments				
Net writedowns for other-than-temporary impairment losses on fixed maturities recognized in earnings(1)	$ (90)	$ (360)	$ (483)	$ (1,464)
Writedowns for impairments on equity securities	(25)	(223)	(101)	(979)

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

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

Credit losses recognized in earnings on fixed maturity securities held by the Company for which a portion of the OTTI loss was recognized in OCI		
	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
	(in millions)	
Balance, beginning of period	$ 1,775	$ 1,747
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(42)	(290)

Credit loss impairments previously recognized on securities impaired to fair value during the period(1)	(24)	(32)
Credit loss impairment recognized in the current period on securities not previously impaired	4	134
Additional credit loss impairments recognized in the current period on securities previously impaired	26	157
Increases due to the passage of time on previously recorded credit losses	18	81
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(10)	(50)
Balance, September 30, 2010	$ 1,747	$ 1,747

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2009
	(in millions)	
Balance, beginning of period	$ 1,522	$ 0
Credit losses remaining in retained earnings related to adoption of new authoritative guidance on January 1, 2009	0	658
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(60)	(151)
Credit loss impairments previously recognized on securities impaired to fair value during the period(1)	(3)	(9)
Credit loss impairment recognized in the current period on securities not previously impaired	81	639
Additional credit loss impairments recognized in the current period on securities previously impaired	209	603
Increases due to the passage of time on previously recorded credit losses	13	29
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(17)	(24)
Balance, September 30, 2009	$ 1,745	$ 1,745

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

Trading Account Assets Supporting Insurance Liabilities

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

	September 30, 2010		December 31, 2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	$ 777	$ 777	$ 725	$ 725
Fixed maturities:				
Corporate securities	9,636	10,449	9,202	9,502
Commercial mortgage-backed securities	2,186	2,272	1,899	1,893
Residential mortgage-backed securities	1,271	1,294	1,434	1,432
Asset-backed securities	1,090	956	1,022	857

Foreign government bonds	533	553	508	517
U.S. government authorities and agencies and obligations of U.S. states	419	420	169	159
Total fixed maturities	15,135	15,944	14,234	14,360
Equity securities	1,144	1,029	1,033	935
Total trading account assets supporting insurance liabilities	$ 17,056	$ 17,750	$ 15,992	$ 16,020

The net change in unrealized gains (losses) from trading account assets supporting insurance liabilities still held at period end, recorded within Asset management fees and other income was $363 million and $692 million during the three months ended September 30, 2010 and 2009, respectively, and $666 million and $1,689 million during the nine months ended September 30, 2010 and 2009, respectively.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Other Trading Account Assets

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

	September 30, 2010		December 31, 2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	$ 5	$ 5	$ 5	$ 5
Fixed Maturities:				
Asset-backed securities	749	698	1,043	991
U.S. government authorities and agencies and obligations of U.S. states	354	357	90	95
Residential mortgage-backed securities	311	186	287	158
Corporate securities	315	321	345	359
Commercial mortgage-backed securities	152	102	239	136
Foreign government bonds	25	26	23	24
Total fixed maturities	1,906	1,690	2,027	1,763
Other(1)	26	30	25	29
Equity securities	470	484	456	471
Subtotal	$ 2,407	$ 2,209	$ 2,513	$ 2,268
Derivative instruments		3,467		765
Total other trading account assets	$ 2,407	$ 5,676	$ 2,513	$ 3,033

(1) Includes reclassifications to conform to current period presentation.

The net change in unrealized gains (losses) from other trading account assets, excluding derivative instruments, still held at period end, recorded within "Asset management fees and other income" was $73 million and $32 million during the three months ended September 30, 2010 and 2009, respectively, and $47 million and $80 million during the nine months ended September 30, 2010 and 2009, respectively.

Concentrations of Financial Instruments

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

As of September 30, 2010 and December 31, 2009, the Company was not exposed to any concentrations of credit risk of any single issuer greater than 10% of the Company s stockholders equity, other than securities of the U.S. government, certain U.S. government agencies and certain securities guaranteed by the U.S. government, as well as the securities disclosed below.

	September 30, 2010		December 31, 2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(in millions)		
Investments in Japanese government and government agency securities:				
Fixed maturities, available for sale	$ 37,307	$ 40,610	$ 33,393	$ 34,449
Fixed maturities, held to maturity	1,164	1,284	1,058	1,082
Trading account assets supporting insurance liabilities	406	421	361	368
Other trading account assets	16	16	22	23
Short-term investments	0	0	0	0
Cash equivalents	0	0	0	0
Total	$ 38,893	$ 42,331	$ 34,834	$ 35,922

	September 30, 2010		December 31, 2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(in millions)		
Investments in South Korean government and government agency securities:				
Fixed maturities, available for sale	$ 3,790	$ 4,186	$ 3,284	$ 3,280
Fixed maturities, held to maturity	0	0	0	0
Trading account assets supporting insurance liabilities	17	18	17	18
Other trading account assets	2	2	1	1
Short-term investments	0	0	0	0
Cash equivalents	0	0	0	0
Total	$ 3,809	$ 4,206	$ 3,302	$ 3,299

	September 30, 2010		December 31, 2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
		(in millions)		
Investments in Federal Home Loan Mortgage Corporation (FHLMC) securities:				
Fixed maturities, available for sale	$ 379	$ 383	$ 148	$ 158
Fixed maturities, held to maturity	0	0	0	0
Trading account assets supporting insurance liabilities	165	165	161	161
Other trading account assets	0	0	0	0
Short-term investments	881	881	1,333	1,333
Cash equivalents	1,931	1,931	328	328

Total	$ 3,356	$ 3,360	$ 1,970	$ 1,980

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Net Investment Income

Net investment income for the three and nine months ended September 30, 2010 and 2009 was from the following sources:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Fixed maturities, available for sale	$ 2,109	$ 2,014	$ 6,229	$ 6,115
Fixed maturities, held to maturity	32	37	100	105
Equity securities, available for sale	71	80	219	235
Trading account assets	218	203	615	613
Commercial mortgage and other loans	487	480	1,404	1,448
Policy loans	146	144	429	422
Broker-dealer related receivables	4	4	10	15
Short-term investments and cash equivalents	14	22	37	113
Other long-term investments	38	(15)	66	(174)
Gross investment income	3,119	2,969	9,109	8,892
Less: investment expenses	(101)	(115)	(303)	(358)
Net investment income	$ 3,018	$ 2,854	$ 8,806	$ 8,534

Realized Investment Gains (Losses), Net

Realized investment gains (losses), net, for the three and nine months ended September 30, 2010 and 2009 were from the following sources:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Fixed maturities	$ 82	$ (308)	$ (163)	$ (1,159)
Equity securities	29	(123)	128	(942)
Commercial mortgage and other loans	44	(124)	51	(452)
Investment real-estate	0	(26)	1	(47)
Joint ventures and limited partnerships	(12)	9	(36)	(44)

Derivatives(1)	(122)	123	2,208	51
Other	8	5	15	16
Realized investment gains (losses), net	$ 29	$ (444)	$ 2,204	$ (2,577)

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

Net Unrealized Investment Gains (Losses)

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

	Net Unrealized Gains (Losses) on Investments	Deferred Policy Acquisition Costs, Deferred Sales Inducements, and Valuation of Business Acquired	Future Policy Benefits	Policyholders Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
			(in millions)			
Balance, December 31, 2009	$ (1,229)	$ 193	$ 2	$ 0	$ 355	$ (679)
Net investment gains (losses) on investments arising during the period	(178)				62	(116)
Reclassification adjustment for (gains) losses included in net income	254				(89)	165
Reclassification adjustment for OTTI losses excluded from net income(1)	(34)				12	(22)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and valuation of business acquired		(144)			50	(94)
Impact of net unrealized investment (gains) losses on future policy benefits			(12)		4	(8)
Impact of net unrealized investment (gains) losses on policyholders dividends				450	(158)	292
Balance, September 30, 2010	$ (1,187)	$ 49	$ (10)	$ 450	$ 236	$ (462)

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

All Other Net Unrealized Investment Gains and Losses in AOCI

	Net Unrealized Gains (Losses) on Investments(1)	Deferred Policy Acquisition Costs, Deferred Sales Inducements, and Valuation of Business Acquired	Future Policy Benefits	Policyholders Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
			(in millions)			
Balance, December 31, 2009	$ 2,885	$ (803)	$ (509)	$ 0	$ (383)	$ 1,190
Net investment gains (losses) on investments arising during the period	11,881				(4,066)	7,815
Reclassification adjustment for (gains) losses included in net income	(208)				73	(135)
Reclassification adjustment for OTTI losses excluded from net income(2)	34				(12)	22
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs, deferred sales inducements and valuation of business acquired		(612)			214	(398)
Impact of net unrealized investment (gains) losses on future policy benefits			(708)		248	(460)
Impact of net unrealized investment (gains) losses on policyholders dividends				(3,603)	1,261	(2,342)
Balance, September 30, 2010	$ 14,592	$ (1,415)	$ (1,217)	$ (3,603)	$ (2,665)	$ 5,692

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

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

	September 30, 2010	December 31, 2009
	(in millions)	
Fixed maturity securities on which an OTTI loss has been recognized	$ (1,187)	$ (1,229)

Fixed maturity securities, available for sale all other	13,790	2,203
Equity securities, available for sale	904	789
Derivatives designated as cash flow hedges(1)	(293)	(317)
Other investments(2)	191	210
Net unrealized gains (losses) on investments	$ 13,405	$ 1,656

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

(2) Includes $242 million of net unrealized losses on held to maturity securities that were transferred from available for sale. Also includes net unrealized gains on certain joint ventures that are strategic in nature and are included in Other assets.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Duration of Gross Unrealized Loss Positions for Fixed Maturities

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

	September 30, 2010					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
Fixed maturities(1)						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 623	$ 3	$ 468	$ 40	$ 1,091	$ 43
Obligations of U.S. states and their political subdivisions	55	2	49	1	104	3
Foreign government bonds	487	3	115	17	602	20
Corporate securities	5,489	266	10,603	1,763	16,092	2,029
Commercial mortgage-backed securities	132	2	382	59	514	61
Asset-backed securities	933	18	5,771	2,106	6,704	2,124
Residential mortgage-backed securities	331	3	501	66	832	69
Total	$ 8,050	$ 297	$ 17,889	$ 4,052	$ 25,939	$ 4,349

(1) Includes $600 million of fair value and $94 million of gross unrealized losses at September 30, 2010 on securities classified as held to maturity, a portion of which are not reflected in accumulated other comprehensive income.

	December 31, 2009					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
Fixed maturities(2)						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 4,058	$ 259	$ 475	$ 111	$ 4,533	$ 370
Obligations of U.S. states and their political subdivisions	936	42	7	0	943	42
Foreign government bonds(1)	5,251	101	515	42	5,766	143
Corporate securities(1)	10,164	346	17,397	2,519	27,561	2,865
Commercial mortgage-backed securities	1,471	40	3,216	180	4,687	220

Asset-backed securities	1,619	565	6,128	1,942	7,747	2,507
Residential mortgage-backed securities	1,567	21	1,150	114	2,717	135
Total	$ 25,066	$ 1,374	$ 28,888	$ 4,908	$ 53,954	$ 6,282

(1) Includes reclassifications to conform to current period presentation.

(2) Includes $1,216 million of fair value and $133 million of gross unrealized losses at December 31, 2009 on securities classified as held to maturity, a portion of which are not reflected in accumulated other comprehensive income.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The gross unrealized losses at September 30, 2010 and December 31, 2009 are composed of $2,734 million and $4,240 million related to high or highest quality securities based on NAIC or equivalent rating and $1,615 million and $2,042 million related to other than high or highest quality securities based on NAIC or equivalent rating. At September 30, 2010, $2,711 million of the gross unrealized losses represented declines in value of greater than 20%, $643 million of which had been in that position for less than six months, as compared to $3,594 million at December 31, 2009, that represented declines in value of greater than 20%, $588 million of which had been in that position for less than six months. At September 30, 2010, the $4,052 million of gross unrealized losses of twelve months or more were concentrated in asset-backed securities, and in the manufacturing, services, and finance sectors of the Company s corporate securities. At December 31, 2009, the $4,908 million of gross unrealized losses of twelve months or more were concentrated in asset-backed securities, and in the manufacturing and finance sectors of the Company s corporate securities. In accordance with its policy described in Note 2, the Company concluded that an adjustment to earnings for other-than-temporary impairments for these securities was not warranted at September 30, 2010 or December 31, 2009. These conclusions are based on a detailed analysis of the underlying credit and cash flows on each security. The gross unrealized losses are primarily attributable to credit spread widening and increased liquidity discounts. At September 30, 2010, the Company does not intend to sell the securities and it is not more likely than not that the Company will be required to sell the securities before the anticipated recovery of its remaining amortized cost basis.

Duration of Gross Unrealized Loss Positions for Equity Securities

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

	September 30, 2010					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
Equity securities, available for sale	$ 1,447	$ 142	$ 348	$ 37	$ 1,795	$ 179

	December 31, 2009					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	(in millions)					
Equity securities, available for sale	$ 1,159	$ 142	$ 754	$ 83	$ 1,913	$ 225

At September 30, 2010, $58 million of the gross unrealized losses represented declines of greater than 20%, $42 million of which had been in that position for less than six months. At December 31, 2009, $62 million of the gross unrealized losses represented declines of greater than 20%, $37 million of which had been in that position for less than six months. Perpetual preferred securities have characteristics of both debt and equity securities. Since an impairment model similar to fixed maturity securities is applied to these securities, an other-than-temporary impairment has not been recognized on certain perpetual preferred securities that have been in a continuous unrealized loss position for twelve months or more as of September 30, 2010, and December 31, 2009. In accordance with its policy described in Note 2, the Company concluded that an adjustment for other-than-temporary impairments for these equity securities was not warranted at September 30, 2010 or December 31, 2009.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

5. VARIABLE INTEREST ENTITIES

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

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

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

Consolidated Variable Interest Entities for which the Company is the Sponsor

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	September 30, 2010	December 31, 2009
	(in millions)	
Fixed maturities, available for sale	$ 58	$ 68
Trading account assets supporting insurance liabilities	9	7
Commercial mortgage and other loans	356	412
Other long-term investments	3	10
Cash and cash equivalents	88	44
Accrued investment income	2	2
Other assets	3	4
Separate account assets	19	38
Total assets of consolidated VIEs	$ 538	$ 585
Other liabilities	380	413
Separate account liabilities	19	38
Total liabilities of consolidated VIEs	$ 399	$ 451

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Other Consolidated Variable Interest Entities

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

	September 30, 2010	December 31, 2009
	(in millions)	
Fixed maturities, available for sale	$ 119	$ 107
Fixed maturities, held to maturity	1,097	985
Other trading account assets	0	0
Other long-term investments	(40)	(48)
Cash and cash equivalents	0	0
Accrued investment income	4	4
Other assets	0	0
Total assets of consolidated VIEs	$ 1,180	$ 1,048
Total liabilities of consolidated VIEs	$ 0	$ 0

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

The funding agreements represent an intercompany transaction that is eliminated upon consolidation. However, in recognition of the security interest in such funding agreements, the trust s medium-term note liability of $3,509 million and $4,927 million at September 30, 2010 and December 31, 2009, respectively, is classified within Policyholders account balances. Creditors of the trust have recourse to Prudential Insurance if the trust fails to make contractual payments on the medium-term notes. The Company has not provided material financial or other support that was not contractually required to the trust.

Unconsolidated Variable Interest Entities

The Company has determined that it is not the primary beneficiary of certain VIEs that it sponsors, including certain CDOs and other investment structures, as it does not have both (1) the power to direct the activities of the VIE that most significantly impact the economic performance of the entity and (2) the obligation to absorb losses of the entity that could be potentially significant to the VIE or the right to receive benefits from the entity that could be potentially significant. The Company s maximum exposure to loss resulting from its relationship with unconsolidated VIEs it sponsors is limited to its investment in the VIEs, which was $507

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

million and $452 million at September 30, 2010 and December 31, 2009, respectively. These investments are reflected in Fixed maturities, available for sale, Other trading account assets, at fair value and Other long-term investments. The fair value of assets held within these unconsolidated VIEs was $8,163 million and $8,194 million as of September 30, 2010 and December 31, 2009, respectively. There are no liabilities associated with these unconsolidated VIEs on the Company s balance sheet.

In the normal course of its activities, the Company will invest in joint ventures and limited partnerships. These ventures include hedge funds, private equity funds and real estate related funds and may or may not be VIEs. The Company s maximum exposure to loss on these investments, both VIEs and non-VIEs, is limited to the amount of its investment. The Company has determined that it is not required to consolidate these entities because either (1) it does not control them or (2) it does not have the obligation to absorb losses of the entities that could be potentially significant to the entities or the right to receive benefits from the entities that could be potentially significant. The Company classifies these investments as Other long-term investments and its maximum exposure to loss associated with these entities was $3,403 million and $3,251 million as of September 30, 2010 and December 31, 2009, respectively.

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

Included among these structured investments are asset-backed securities issued by VIEs that manage investments in the European market. In addition to a stated coupon, each investment provides a return based on the VIE s portfolio of assets and related investment activity. The market value of these VIEs was approximately $6.1 billion and $7.5 billion as of September 30, 2010 and December 31, 2009, respectively, and these VIEs were financed primarily through the issuance of notes similar to those purchased by the Company. The Company generally accounts for these investments as available for sale fixed maturities containing embedded derivatives that are bifurcated and marked-to-market through Realized investment gains (losses), net, based upon the change in value of the underlying portfolio. The Company s variable interest in each of these VIEs represents less than 50% of the only class of variable interests issued by the VIE. The Company s maximum exposure to loss from these interests was $750 million and $723 million at September 30, 2010 and December 31, 2009, respectively, which includes the fair value of the embedded derivatives.

6. CLOSED BLOCK

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

As of September 30, 2010, the Company did not recognize a cumulative earnings policyholder dividend obligation since actual cumulative earnings were below the expected cumulative earnings by $64 million. However, accumulated net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of $3.149 billion at September 30, 2010, to be paid to Closed Block policyholders unless offset by future experience, with an offsetting amount reported in Accumulated other comprehensive income (loss). As of December 31, 2009, actual cumulative earnings were below the expected cumulative earnings, thereby eliminating the policyholder dividend obligation. Furthermore, the accumulation of net unrealized investment gains as of December 31, 2009 that had arisen subsequent to the establishment of the Closed Block, were not sufficient to overcome the cumulative earnings shortfall. See the table below for changes in the components of the policyholder dividend obligation for the nine months ended September 30, 2010.

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PRUDENTIAL FINANCIAL, INC.

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

	September 30, 2010	December 31, 2009
	(in millions)	
Closed Block Liabilities		
Future policy benefits	$ 51,597	$ 51,774
Policyholders dividends payable	971	926
Policyholders dividend obligation	3,149	0
Policyholders account balances	5,545	5,588
Other Closed Block liabilities	4,607	4,300
Total Closed Block Liabilities	65,869	62,588
Closed Block Assets		
Fixed maturities, available for sale, at fair value	41,744	38,448
Other trading account assets, at fair value	156	166
Equity securities, available for sale, at fair value	3,200	3,037
Commercial mortgage and other loans	7,814	7,751
Policy loans	5,397	5,418
Other long-term investments	1,660	1,597
Short-term investments	995	1,218
Total investments	60,966	57,635
Cash and cash equivalents	758	662
Accrued investment income	643	608
Other Closed Block assets	474	307
Total Closed Block Assets	62,841	59,212
Excess of reported Closed Block Liabilities over Closed Block Assets	3,028	3,376
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains (losses)	3,175	231
Allocated to policyholder dividend obligation	(3,149)	0
Future earnings to be recognized from Closed Block Assets and Closed Block Liabilities	$ 3,054	$ 3,607

Information regarding the policyholder dividend obligation is as follows:

	Nine Months Ended September 30, 2010 (in millions)
Balance, January 1	$ 0
Impact from earnings allocable to policyholder dividend obligation	0
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation	3,149
Balance, September 30	$ 3,149

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Closed Block revenues and benefits and expenses for the three and nine months ended September 30, 2010 and 2009 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Revenues				
Premiums	$ 684	$ 738	$ 2,191	$ 2,378
Net investment income	751	733	2,226	2,161
Realized investment gains (losses), net	66	(22)	766	(1,250)
Other income	32	36	31	88
Total Closed Block revenues	1,533	1,485	5,214	3,377
Benefits and Expenses				
Policyholders benefits	811	839	2,572	2,743
Interest credited to policyholders account balances	35	36	105	106
Dividends to policyholders	480	539	1,462	795
General and administrative expenses	136	139	407	427
Total Closed Block benefits and expenses	1,462	1,553	4,546	4,071
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes and discontinued operations	71	(68)	668	(694)
Income tax expense (benefit)	(41)	(6)	116	(8)
Closed Block revenues, net of Closed Block benefits and expenses and income taxes, before discontinued operations	112	(62)	552	(686)
Income from discontinued operations, net of taxes	1	0	1	0
Closed Block revenues, net of Closed Block benefits and expenses, income taxes and discontinued operations	$ 113	$ (62)	$ 553	$ (686)

7. EQUITY

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

	Common Stock			Class B Stock
	Issued	Held In Treasury	Outstanding	Issued and Outstanding
	(in millions)			
Balance, December 31, 2009	641.8	179.7	462.1	2.0
Common Stock issued	0.0	0.0	0.0	0.0
Common Stock acquired	0.0	0.0	0.0	0.0
Stock-based compensation programs(1)	0.0	(2.9)	2.9	0.0
Balance, September 30, 2010	641.8	176.8	465.0	2.0

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Comprehensive Income

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Net income	$ 1,242	$ 1,032	$ 3,017	$ 1,215
Other comprehensive income (loss), net of taxes:				
Change in foreign currency translation adjustments	509	333	415	193
Change in net unrealized investments gains (losses)(1)	1,997	4,763	4,719	7,865
Change in pension and postretirement unrecognized net periodic benefit	3	8	41	26
Other comprehensive income(2)	2,509	5,104	5,175	8,084
Comprehensive income	3,751	6,136	8,192	9,299
Comprehensive (income) loss attributable to noncontrolling interests	22	42	(2)	61
Comprehensive income attributable to Prudential Financial, Inc.	$ 3,773	$ 6,178	$ 8,190	$ 9,360

(1) Includes cash flow hedges of $(119) million and $(36) million for the three months ended September 30, 2010 and 2009, respectively and $16 million and $(66) million for the nine months ended September 30, 2010 and 2009, respectively. See Note 4 for additional information regarding unrealized investment gains (losses), including the split between amounts related to fixed maturity securities on which an other-than-temporary impairment loss has been recognized, and all other unrealized investment gains (losses).

(2) Amounts are net of tax expense of $1,084 million and $2,578 million for the three months ended September 30, 2010 and 2009, respectively and $2,507 million and $4,070 million for the nine months ended September 30, 2010 and 2009, respectively.

The balance of and changes in each component of Accumulated other comprehensive income (loss) attributable to Prudential Financial, Inc. for the nine months ended September 30, 2010 and 2009 are as follows (net of taxes):

	Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.			
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains	Pension and Postretirement Unrecognized Net	Total Accumulated Other Comprehensive

		(Losses)(1)	Periodic Benefit (Cost)	Income (Loss)
			(in millions)	
Balance, December 31, 2009	$ 674	$ 511	$ (1,628)	$ (443)
Change in component during period	412	4,719	41	5,172
Balance, September 30, 2010	$ 1,086	$ 5,230	$ (1,587)	$ 4,729

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Accumulated Other Comprehensive Income (Loss) Attributable to Prudential Financial, Inc.			
	Foreign Currency Translation Adjustment	Net Unrealized Investment Gains (Losses)(1)	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)	Total Accumulated Other Comprehensive Income (Loss)
	(in millions)			
Balance, December 31, 2008	$ 375	$ (6,735)	$ (983)	$ (7,343)
Change in component during period	210	7,865	26	8,101
Impact of adoption of guidance for other-than-temporary impairments of debt securities(2)	0	(659)	0	(659)
Balance, September 30, 2009	$ 585	$ 471	$ (957)	$ 99

(1) Includes cash flow hedges of $(189) million and $(205) million as of September 30, 2010 and December 31, 2009, respectively and $(213) million and $(147) million as of September 30, 2009 and December 31, 2008, respectively. See Note 4 for additional information regarding unrealized investment gains (losses), including the split between amounts related to fixed maturity securities on which an other-than-temporary impairment loss has been recognized, and all other unrealized investment gains (losses).

(2) See Note 2 for additional information on the adoption of guidance for other-than-temporary impairments of debt securities.

8. EARNINGS PER SHARE

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

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

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Common Stock

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

	Three Months Ended September 30,					
	2010			2009		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)					
Basic earnings per share						
Income from continuing operations attributable to the Financial Services Businesses	$ 1,158			$ 1,040		
Direct equity adjustment	9			12		
Less: Income (loss) attributable to noncontrolling interests	(2)			(50)		
Less: Earnings allocated to participating unvested share-based payment awards	15			12		
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 1,154	464.8	$ 2.48	$ 1,090	461.2	$ 2.36
Effect of dilutive securities and compensation programs						
Add: Earnings allocated to participating unvested share-based payment awards Basic	$ 15			$ 12		
Less: Earnings allocated to participating unvested share-based payment awards Diluted	15			12		
Stock options		2.9			2.4	
Deferred and long-term compensation programs		0.4			0.3	
Exchangeable Surplus Notes	4	5.1		1	0.7	
Diluted earnings per share						
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 1,158	473.2	$ 2.45	$ 1,091	464.6	$ 2.35

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Nine Months Ended September 30,					
	2010			2009		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)					
Basic earnings per share						
Income from continuing operations attributable to the Financial Services Businesses	$ 2,495			$ 1,553		
Direct equity adjustment	29			34		
Less: Income (loss) attributable to noncontrolling interests	(1)			(44)		
Less: Earnings allocated to participating unvested share-based payment awards	33			18		
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 2,492	464.0	$ 5.37	$ 1,613	438.8	$ 3.68
Effect of dilutive securities and compensation programs						
Add: Earnings allocated to participating unvested share-based payment awards Basic	$ 33			$ 18		
Less: Earnings allocated to participating unvested share-based payment awards Diluted	32			18		
Stock options		3.1			1.2	
Deferred and long-term compensation programs		0.5			0.6	
Exchangeable Surplus Notes	13	5.1		0	0.0	
Diluted earnings per share						
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 2,506	472.7	$ 5.30	$ 1,613	440.6	$ 3.66

Unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and included in the computation of earnings per share pursuant to the two-class method. Under this method, earnings of the Financial Services Businesses attributable to Prudential Financial, Inc. are allocated between Common Stock and the participating awards, as if the awards were a second class of stock. Undistributed earnings allocated to participating unvested share-based payment awards for the three months ended September 30, 2010 and 2009 were based on 6.2 million and 5.3 million of such awards, respectively, weighted for the period they were outstanding. Undistributed earnings allocated to participating unvested share-based payment awards for the nine months ended September 30, 2010 and 2009 were based on 6.1 million and 4.9 million of such awards, respectively, weighted for the period they were outstanding. The computation of earnings per share of Common Stock excludes the dilutive impact of participating unvested share-based awards based on the application of the two-class method.

For the three months ended September 30, 2010 and 2009, 11.2 million and 10.4 million options, respectively, weighted for the portion of the period they were outstanding, with a weighted average exercise price of $70.65 and $72.65 per share, respectively, were excluded from the computation of diluted earnings per share because the options, based on application of the treasury stock method, were antidilutive. For the nine months ended September 30, 2010 and 2009, 10.3 million and 14.1 million options, respectively, weighted for the

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

portion of the period they were outstanding, with a weighted average exercise price of $72.00 and $62.87 per share, respectively, were excluded from the computation of diluted earnings per share because the options, based on application of the treasury stock method, were antidilutive.

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

The Company s convertible senior notes provide for the Company to issue shares of its Common Stock as a component of the conversion of the notes. As of September 30, 2010, $2 million of senior notes related to the $2.0 billion December 2006 issuance remain outstanding. These will be dilutive to earnings per share if the average market price of the Common Stock for a particular period is above the initial conversion price of $104.21. As of September 30, 2010, $0.2 million of senior notes related to the $3.0 billion December 2007 issuance remain outstanding. These senior notes will be dilutive to earnings per share if the average market price of the Common Stock for a particular period is above the initial conversion price of $132.39.

Class B Stock

Income (loss) from continuing operations per share of Class B Stock for the three and nine months ended September 30, are presented below. There are no potentially dilutive shares associated with the Class B Stock.

	Three Months Ended September 30,					
	2010			2009		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)					
Basic earnings per share						
Income (loss) from continuing operations attributable to the Closed Block Business	$ 76			$ (8)		
Less: Direct equity adjustment	9			12		
Income (loss) from continuing operations attributable to the Closed Block Business available to holders of Class B Stock after direct equity adjustment	$ 67	2.0	$ 33.50	$ (20)	2.0	$ (10.00)

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Nine Months Ended September 30,					
	2010			2009		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)					
Basic earnings per share						
Income (loss) from continuing operations attributable to the Closed Block Business	$ 516			$ (364)		
Less: Direct equity adjustment	29			34		
Income (loss) from continuing operations attributable to the Closed Block Business available to holders of Class B Stock after direct equity adjustment	$ 487	2.0	$ 243.50	$ (398)	2.0	$ (199.00)

9. SHORT-TERM AND LONG-TERM DEBT

Commercial Paper

The Company issues commercial paper under the two programs described below primarily to manage operating cash flows and existing commitments, to meet working capital needs and to take advantage of current investment opportunities. At September 30, 2010 and December 31, 2009, the weighted average maturity of total commercial paper outstanding was 35 and 27 days, respectively.

Prudential Financial has a commercial paper program rated A-1 by Standard & Poor s Rating Services (S&P), P-2 by Moody s Investors Service, Inc. (Moody s) and F2 by Fitch Ratings Ltd. (Fitch) as of September 30, 2010.

Prudential Funding, LLC, a wholly owned subsidiary of Prudential Insurance has a commercial paper program, rated A-1+ by S&P, P-2 by Moody s and F1 by Fitch as of September 30, 2010. Prudential Financial has issued a subordinated guarantee covering Prudential Funding s domestic commercial paper program.

Both commercial paper programs are backed by our unsecured committed lines of credit. As of September 30, 2010, Prudential Financial, Prudential Insurance and Prudential Funding had unsecured committed lines of credit totaling $3.9 billion, which reflects a reduction from $4.3 billion effective July 15, 2010, in connection with an amendment to certain terms and conditions of the credit facilities. There were no outstanding borrowings under these facilities as of September 30, 2010.

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

	September 30, 2010	December 31, 2009
	(in millions)	
Prudential Financial	$ 249	$ 146
Prudential Funding, LLC	1,092	730
Total outstanding commercial paper borrowings	$ 1,341	$ 876

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Medium-term Notes

On January 14, 2010, Prudential Financial issued under its Medium-term Notes, Series D program $500 million of 2.75% notes due January 2013 and $750 million of 3.875% notes due January 2015. On June 21, 2010, Prudential Financial issued under its Medium-term Notes, Series D program $650 million of 5.375% notes due June 2020 and $350 million of 6.625% notes due June 2040.

Retail Medium-term Notes

Prudential Financial also maintains a retail medium-term notes program, including the InterNotes® program, under its shelf registration statement with an authorized issuance capacity of $5.0 billion. As of September 30, 2010, the outstanding balance of retail notes was $2.8 billion, a decrease of $432 million from December 31, 2009, resulting primarily from maturities and redemptions at the request of the Company.

Federal Home Loan Bank of New York

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

NJDOBI permits Prudential Insurance to pledge collateral to the FHLBNY in an amount up to 7% of its prior year-end statutory net admitted assets, excluding separate account assets. This limitation resets to 5% on December 31, 2010 unless extended by NJDOBI. NJDOBI has also limited the aggregate amount of assets that Prudential Insurance may pledge for any loans, including FHLBNY borrowings, to up to 10% of its prior year-end statutory net admitted assets, excluding separate account assets; however, this limitation excludes certain activities, such as the asset-based financing transactions described above. Based on Prudential Insurance s statutory net admitted assets as of December 31, 2009, the 7% limitation equates to a maximum amount of pledged assets of $10.4 billion and an estimated maximum borrowing capacity (after taking into account required collateralization levels and purchases of activity-based stock) of approximately $8.7 billion. Nevertheless, FHLBNY borrowings are subject to the FHLBNY s discretion and to the availability of qualifying assets at Prudential Insurance.

As of September 30, 2010, Prudential Insurance had pledged qualifying assets with a fair value of $2.8 billion, which supported outstanding collateralized advances of $1.0 billion and collateralized funding agreements of $1.5 billion. The fair value of qualifying assets that were available to Prudential Insurance but not pledged amounted to $6.2 billion as of September 30, 2010.

As of September 30, 2010, the $1.0 billion of FHLBNY outstanding advances are reflected in Short-term debt and represent a $1.0 billion decrease from December 31, 2009, reflecting the repayment of collateralized advances that matured on June 4, 2010. The outstanding $1.0 billion collateralized advance matures on December 6, 2010. The funding agreements issued to the FHLBNY, which are reflected in Policyholders account balances, have priority claim status above debt holders of Prudential Insurance.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Federal Home Loan Bank of Boston

Prudential Retirement Insurance and Annuity Company, or PRIAC, became a member of the Federal Home Loan Bank of Boston, or FHLBB, in December 2009. Membership allows PRIAC access to collateralized advances which will be classified in short-term debt or long-term debt, depending on the maturity date of the obligation. PRIAC s membership in FHLBB requires the ownership of member stock and borrowings from FHLBB require the purchase of activity-based stock in an amount between 3.0% and 4.5% of outstanding borrowings depending on the maturity date of the obligation. As of September 30, 2010, PRIAC had no advances outstanding under the FHLBB facility.

The Connecticut Department of Insurance, or CTDOI, permits PRIAC to pledge up to $2.6 billion in qualifying assets to secure FHLBB borrowings through December 31, 2011. PRIAC must seek re-approval from CTDOI prior to borrowing additional funds after that date. Based on available eligible assets as of September 30, 2010, PRIAC had an estimated maximum borrowing capacity, after taking into consideration required collateralization levels and required purchases of activity based FHLBB stock, of approximately $0.9 billion.

Term Asset-Backed Securities Loan Facility

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

During 2009, the Company obtained $1,167 million of secured financing from the Federal Reserve under this program. In 2009, the Company sold a portion of the securities purchased under the program and used the proceeds to repay $738 million of the borrowings. In 2010, the Company sold a portion of the remaining securities purchased under the program and used the proceeds, as well as internal sources of cash, to repay the remaining $429 million of the borrowings.

10. EMPLOYEE BENEFIT PLANS

Pension and Other Postretirement Plans

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

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Three Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
	(in millions)			
Components of net periodic (benefit) cost				
Service cost	$ 45	$ 40	$ 3	$ 3
Interest cost	118	115	28	29
Expected return on plan assets	(186)	(182)	(27)	(27)
Amortization of prior service cost	6	7	(3)	(3)
Amortization of actuarial (gain) loss, net	10	8	10	11
Net periodic (benefit) cost(1)	$ (7)	$ (12)	$ 11	$ 13

	Nine Months Ended September 30,			
	Pension Benefits		Other Postretirement Benefits	
	2010	2009	2010	2009
	(in millions)			
Service cost	$ 134	$ 122	$ 9	$ 9
Interest cost	352	345	84	87
Expected return on plan assets	(558)	(546)	(81)	(81)
Amortization of prior service cost	18	21	(9)	(9)
Amortization of actuarial (gain) loss, net	30	24	30	33
Curtailments	(6)	0	0	0
Special termination benefits	2	0	0	0
Net periodic (benefit) cost(1)	$ (28)	$ (34)	$ 33	$ 39

(1) Includes net periodic (benefit) cost for pensions of $0 million and $1 million for the three months ended September 30, 2010 and September 30, 2009, respectively and $(4) million and $4 million for the nine months ended September 30, 2010 and September, 2009, respectively, that have been classified as discontinued operations.

The Company made a discretionary cash contribution in July of 2010 of $95 million to an irrevocable trust, commonly referred to as a "rabbi trust," which holds assets of the Company to be used to satisfy its obligations with respect to certain non-qualified retirement plans.

The Company has evaluated the impact of the Patient Protection and Affordable Care Act (PPACA) and Health Care and Education Reconciliation Act (HCERA) signed into law in March 2010 on its Retiree Medical obligations and has concluded the impact is not material. The effects of the Acts will be included in the next measurement of the obligation at December 31, 2010.

11. SEGMENT INFORMATION

Segments

The Company has organized its principal operations into the Financial Services Businesses and the Closed Block Business. Within the Financial Services Businesses, the Company operates through three divisions, which together encompass seven reportable segments. The Company s real estate and relocation services business, as

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Adjusted Operating Income

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

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

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

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

Effective with the third quarter of 2010, the Company has amended its definition of adjusted operating income as it relates to certain variable annuity contracts and defined contribution accounts that contain optional guaranteed living benefit features. Changes in the fair value of these

optional living benefit features, which are accounted for as embedded derivatives, are primarily driven by changes in the policyholders account balance and changes in the capital market and policyholder behavior assumptions used in the valuation of the embedded derivatives, including equity market returns, interest rates, market volatility, benefit utilization, contract lapses, contractholder mortality, and withdrawal rates. The changes in fair value of the embedded derivative liabilities also reflect an increase or decrease in the market-perceived risk of the Company s non-performance. The Company hedges or limits its exposure to certain risks associated with these living benefit features through a combination of product design elements and externally purchased hedging instruments. In addition, beginning in the second quarter of 2009, the Company expanded its hedging program to include a portion of the market exposure related to the overall capital position of the variable annuity business. During the second quarter of 2010, the equity component of the capital hedge within the variable annuity business was replaced with a new capital hedge program that more broadly addressed equity market exposure of the statutory capital within the Financial Services Businesses as a whole. Changes in the value of the embedded derivatives inclusive of the

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

market-perceived risk of the Company s non-performance, and the related hedge positions are reported in Realized investment gains (losses), net. Historically, adjusted operating income included the changes in fair value of these embedded derivatives and related hedge positions, in the period they occurred, and also included the related impact to amortization of deferred policy acquisition and other costs.

Adjusted operating income under the amended definition excludes any amounts related to changes in the market value of the embedded derivatives and related hedge positions, and the related impact to amortization of deferred policy acquisition and other costs. Adjusted operating income for all periods presented has been revised to conform to the amended definition. The Company views adjusted operating income under the amended definition as a more meaningful presentation of its results for purposes of analyzing the operating performance of, and allocating resources to, its business segments, as the amended definition presents results on a basis more consistent with the economics of the businesses. The accounting for these products and associated derivatives under U.S. GAAP has not changed.

The following table presents amounts included within the U.S. GAAP results of the Individual Annuities and Retirement segments and Corporate and Other operations that have been excluded from adjusted operating income under the amended definition for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Net benefit/(charge) excluded from adjusted operating income under the amended definition:				
Individual Annuities:				
Decrease/(increase) in the fair value of the embedded derivative liabilities(1)	$ (69)	$ 274	$ (1,922)	$ 2,062
Change in fair value of hedge positions	139	(166)	2,056	(1,761)
Subtotal	70	108	134	301
Decrease/(increase) in the embedded derivative liabilities resulting from updates to inputs used in the valuation of the liability	(152)	(197)	912	454
Net benefit/(charge) from the mark-to-market of embedded derivatives and related hedge positions	(82)	(89)	1,046	755
Related benefit/(charge) to amortization of deferred policy acquisition and other costs	187	80	(509)	(558)
Net impact living benefit guarantees and hedging activities and related costs	105	(9)	537	197
Impact of capital hedge program	(22)	(140)	(21)	(142)
Subtotal Individual Annuities	83	(149)	516	55
Retirement(2)	3	2	9	15
Corporate and Other(3)	3	(4)	(3)	25
Net benefit/(charge) excluded from adjusted operating income under the amended definition	$ 89	$ (151)	$ 522	$ 95

(1) Represents the change in fair value of the embedded derivative liabilities, excluding the impact resulting from updates to inputs used in the valuation of the liability and the market-perceived risk of the Company s non-performance.
(2) Represents the net impact of living benefit guarantees, hedging activities, and related amortization of deferred policy acquisition and other costs associated with certain defined contribution accounts, which are excluded from adjusted operating income under the amended definition.
(3) Represents the net impact of capital hedge related activities and consolidating adjustments associated with these living benefit guarantees, which are excluded from adjusted operating income under the amended definition.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Charges that relate to realized investment gains (losses), net, are also excluded from adjusted operating income. The related charges are associated with: policyholder dividends; amortization of deferred policy acquisition costs, valuation of business acquired (VOBA), unearned revenue reserves and deferred sales inducements; interest credited to policyholders account balances; reserves for future policy benefits; and payments associated with the market value adjustment features related to certain of the annuity products the Company sells. The related charges associated with policyholder dividends include a percentage of the net increase in the fair value of specified assets included in Gibraltar Life s reorganization plan that was paid as a special dividend to Gibraltar Life policyholders. The liability related to this special dividend was fully paid as of June 30, 2010. Deferred policy acquisition costs, VOBA, unearned revenue reserves and deferred sales inducements for certain products are amortized based on estimated gross profits, which include net realized investment gains and losses on the underlying invested assets including certain portions of the net realized investment gains and losses related to the embedded derivatives and related hedging positions associated with the living benefit features related to certain products as discussed above. The related charge for these items represents the portion of this amortization associated with net realized investment gains and losses. The related charges for interest credited to policyholders account balances relate to certain group life policies that pass back certain realized investment gains and losses to the policyholder. The reserves for certain policies are adjusted when cash flows related to these policies are affected by net realized investment gains and losses, and the related charge for reserves for future policy benefits represents that adjustment. Certain of the Company s annuity products contain a market value adjustment feature that requires us to pay to the contractholder or entitles us to receive from the contractholder, upon surrender, a market value adjustment based on the crediting rates on the contract surrendered compared to crediting rates on newly issued contracts or based on an index rate at the time of purchase compared to an index rate at time of surrender, as applicable. These payments mitigate the net realized investment gains or losses incurred upon the disposition of the underlying invested assets. The related charge represents the payments or receipts associated with these market value adjustment features.

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

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

Adjusted operating income of the International Insurance segment and International Investments segment, excluding the global commodities group, reflect the impact of an intercompany arrangement with Corporate and Other operations pursuant to which the segments non-U.S. dollar denominated earnings in all countries for a particular year, including its interim reporting periods, are translated at fixed currency exchange

rates. The fixed rates are determined in connection with a currency hedging program designed to mitigate the risk that

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

unfavorable rate changes will reduce the segments U.S. dollar equivalent earnings. Pursuant to this program, the Company s Corporate and Other operations execute forward currency contracts with third parties to sell the net exposure of projected earnings from the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these contracts correspond with the future periods in which the identified non-U.S. dollar denominated earnings are expected to be generated. These contracts do not qualify for hedge accounting under U.S. GAAP and, as noted above, all resulting profits or losses from such contracts are included in Realized investment gains (losses), net. When the contracts are terminated in the same period that the expected earnings emerge, the resulting positive or negative cash flow effect is included in adjusted operating income (net losses of $27 million and $13 million for the three months ended September 30, 2010 and 2009, respectively, and net losses of $58 million and $14 million for the nine months ended September 30, 2010 and 2009, respectively). As of September 30, 2010 and December 31, 2009, the fair value of open contracts used for this purpose were net liabilities of $203 million and $16 million, respectively.

The Company uses interest rate and currency swaps and other derivatives to manage interest and currency exchange rate exposures arising from mismatches between assets and liabilities, including duration mismatches. For the derivative contracts that do not qualify for hedge accounting treatment, mark-to-market adjustments of open contracts as well as periodic settlements are included in Realized investment gains (losses), net. However, the periodic swap settlements, as well as other derivative related yield adjustments, are included in adjusted operating income to reflect the after-hedge yield of the underlying instruments. In certain instances, when these derivative contracts are terminated or offset before their final maturity, the resulting realized gains or losses recorded within Realized investment gains (losses), net are recognized in adjusted operating income over periods that generally approximate the expected terms of the derivatives or underlying instruments in order for adjusted operating income to reflect the after-hedge yield of the underlying instruments. Adjusted operating income includes net gains of $49 million and $43 million for the three months ended September 30, 2010 and 2009, respectively, due to periodic settlements and yield adjustments of such contracts, and includes net gains of $9 million and $7 million, respectively, related to derivative contracts that were terminated or offset in prior periods. Adjusted operating income includes net gains of $180 million and $100 million for the nine months ended September 30, 2010 and 2009, respectively, due to periodic settlements and yield adjustments of such contracts, and includes net gains of $24 million and $18 million, respectively, related to derivative contracts that were terminated or offset in prior periods. The table below reflects the total deferred gain (loss) as of September 30, 2010, related to derivative contracts that were terminated or offset in prior periods that will be recognized in adjusted operating income in future periods for each segment, as well as the weighted average period over which these deferred amounts will be recognized.

	Deferred Amount	Weighted Average Period
	(in millions)	
Segment:		
International Insurance	$ 723	30 years
Asset Management	27	9 years
Corporate and Other	(50)	7 years
Total deferred gain (loss)	$ 700	

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

The Company conducts certain activities for which Realized investment gains (losses), net are a principal source of earnings for its businesses and therefore included in adjusted operating income, particularly within the Company s Asset Management segment. For example, Asset Management s proprietary investing business

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

makes investments for sale or syndication to other investors or for placement or co-investment in the Company s managed funds and structured products. The Realized investment gains (losses), net associated with the sale of these proprietary investments, as well as related derivative results, are a principal activity for this business and included in adjusted operating income. In addition, the Realized investment gains (losses), net associated with loans originated by the Company s commercial mortgage operations, as well as related derivative results and retained mortgage servicing rights, are a principal activity for this business and included in adjusted operating income. Net realized investment losses of $1 million and $33 million for the three months ended September 30, 2010 and 2009, respectively, and net gains of $9 million and losses of $175 million for the nine months ended September 30, 2010 and 2009, respectively, related to these and other businesses were included in adjusted operating income as an adjustment to Realized investment gains (losses), net.

The Company has certain investments in its general account portfolios that are classified as trading. These trading investments are carried at fair value and included in Other trading account assets, at fair value on the Company s statements of financial position. Realized and unrealized gains and losses for these investments are recorded in Asset management fees and other income, and interest and dividend income for these investments is recorded in Net investment income. Consistent with the exclusion of realized investment gains and losses with respect to other investments managed on a consistent basis, the net gains or losses on these investments, which is recorded within Asset management fees and other income, is excluded from adjusted operating income and is reflected as an adjustment to Realized investment gains (losses), net. In addition, prior to the Company s repayment of the obligation in 2010, the secured financing received from the Federal Reserve under TALF was reflected within Long-term debt, and carried at fair value under the fair value option under authoritative guidance around fair value. The changes in the fair value of this debt, which were recorded within Asset management fees and other income, was also excluded from adjusted operating income and reflected as an adjustment to Realized investment gains (losses), net. This is consistent with the securities purchased with the proceeds from this financing, which were carried at fair value and included in Other trading account assets, at fair value as discussed above. The net impact of these adjustments was to exclude from adjusted operating income net gains of $23 million and $31 million, for the three months ended September 30, 2010 and 2009, respectively, and net gains of $18 million and $14 million for the nine months ended September 30, 2010 and 2009, respectively.

The Company has certain assets and liabilities for which, under GAAP, the change in value due to changes in foreign currency exchange rates during the period is recorded in Asset management fees and other income. To the extent the foreign currency exposure on these assets and liabilities is economically hedged, the change in value included in Asset management fees and other income is excluded from adjusted operating income and is reflected as an adjustment to Realized investment gains (losses), net. The net impact of these adjustments was to exclude from adjusted operating income net gains of $192 million, and losses of $23 million for the three months ended September 30, 2010 and 2009, respectively, and net gains of $150 million and gains of $56 million for the nine months ended September 30, 2010 and 2009, respectively.

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Adjusted Operating Income before income taxes for Financial Services Businesses by Segment:				
Individual Annuities	$ 588	$ 315	$ 701	$ 560
Retirement	119	117	425	362
Asset Management	148	29	355	61
Total U.S. Retirement Solutions and Investment Management Division	855	461	1,481	983
Individual Life	190	243	369	421
Group Insurance	61	64	146	262
Total U.S. Individual Life and Group Insurance Division	251	307	515	683
International Insurance	530	500	1,473	1,390
International Investments	1	7	32	25
Total International Insurance and Investments Division	531	507	1,505	1,415
Corporate Operations	(279)	(209)	(662)	(521)
Real Estate and Relocation Services	19	6	22	(54)
Total Corporate and Other	(260)	(203)	(640)	(575)
Adjusted Operating Income before income taxes for Financial Services Businesses	1,377	1,072	2,861	2,506
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	160	(406)	1,481	(1,101)
Charges related to realized investment gains (losses), net	118	29	(641)	(561)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	388	694	719	1,525
Change in experience-rated contractholder liabilities due to asset value changes	(367)	(458)	(831)	(850)
Divested businesses	(32)	25	(46)	(31)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	(18)	(92)	(36)	(75)

Income from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	1,626	864	3,507	1,413
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Closed Block Business	114	(16)	777	(572)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 1,740	$ 848	$ 4,284	$ 841

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Financial Services Businesses:				
Individual Annuities	$ 807	$ 653	$ 2,334	$ 1,818
Retirement	1,376	1,100	3,875	3,525
Asset Management	493	291	1,366	896
Total U.S. Retirement Solutions and Investment Management Division	2,676	2,044	7,575	6,239
Individual Life	638	656	2,076	2,039
Group Insurance	1,466	1,356	4,093	3,992
Total U.S. Individual Life and Group Insurance Division	2,104	2,012	6,169	6,031
International Insurance	3,008	2,668	8,849	7,738
International Investments	84	74	256	225
Total International Insurance and Investments Division	3,092	2,742	9,105	7,963
Corporate Operations	(62)	(62)	(166)	(154)
Real Estate and Relocation Services	66	62	167	113
Total Corporate and Other	4	0	1	(41)
Total	7,876	6,798	22,850	20,192
Reconciling items:				
Realized investment gains (losses), net, and related adjustments	160	(406)	1,481	(1,101)
Charges related to realized investment gains (losses), net	(42)	(80)	(115)	(141)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	388	694	719	1,525
Divested businesses	4	32	6	(10)
	(16)	(43)	(35)	(31)

Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests				
Total Financial Services Businesses	8,370	6,995	24,906	20,434
Closed Block Business	1,592	1,548	5,402	3,513
Total per Unaudited Interim Consolidated Financial Statements	$ 9,962	$ 8,543	$ 30,308	$ 23,947

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2010	**2009**	**2010**	**2009**
	(in millions)			
Asset Management segment intersegment revenues	$ 102	$ 88	$ 290	$ 257

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

The summary below presents total assets for the Company s reportable segments as of the dates indicated:

	September 30, 2010	December 31, 2009
	(in millions)	
Individual Annuities	$ 101,969	$ 84,064
Retirement	129,845	123,625
Asset Management	32,181	30,185
Total U.S. Retirement Solutions and Investment Management Division	263,995	237,874
Individual Life	40,002	36,917
Group Insurance	34,927	32,935
Total U.S. Individual Life and Group Insurance Division	74,929	69,852
International Insurance	100,806	87,590
International Investments	5,779	4,997
Total International Insurance and Investments Division	106,585	92,587
Corporate Operations	12,080	14,368
Real Estate and Relocation Services	634	590
Total Corporate and Other	12,714	14,958
Total Financial Services Businesses	458,223	415,271
Closed Block Business	68,701	64,932
Total	$ 526,924	$ 480,203

12. INCOME TAXES

The Company s liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the Internal Revenue Service (IRS) or other taxing authorities. Audit periods remain open for review until the statute of limitations has passed. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards (tax attributes), the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to the liability for income taxes. The statute of limitations for the 2002 tax year expired on April 30, 2009. The statute of limitations for the 2003 tax year expired on July 31, 2009. The statute of limitations for the 2004, 2005, and 2006 tax years will expire in April 2011, unless extended. Tax years 2007 through 2009 are still open for IRS examination. The Company does not anticipate any significant changes within the next 12 months to its total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

The dividends received deduction (DRD) reduces the amount of dividend income subject to U.S. tax and is a significant component of the difference between the Company s effective tax rate and the federal statutory tax rate of 35%. The DRD for the current period was estimated using information from 2009, current year results, and was adjusted to take into account the current year s equity market performance. The actual current year DRD can vary from the estimate based on factors such as, but not limited to, changes in the amount of dividends received that are eligible for the DRD, changes in the amount of distributions received from mutual fund investments, changes in the account balances of variable life and annuity contracts, and the Company s taxable income before the DRD.

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In August 2007, the IRS released Revenue Ruling 2007-54, which included, among other items, guidance on the methodology to be followed in calculating the DRD related to variable life insurance and annuity contracts. In September 2007, the IRS released Revenue Ruling 2007-61. Revenue Ruling 2007-61 suspended Revenue Ruling 2007-54 and informed taxpayers that the U.S. Treasury Department and the IRS intend to address through new regulations the issues considered in Revenue Ruling 2007-54, including the methodology to be followed in determining the DRD related to variable life insurance and annuity contracts. On 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 actual tax expense and reduce the Company s consolidated net income. The IRS recently issued an Industry Director Directive (IDD) stating that the methodology for calculating the DRD set forth in Revenue Ruling 2007-54 should not be followed. The IDD also confirmed that the IRS guidance issued before Revenue Ruling 2007-54, which guidance the Company relied upon in calculating its DRD, should be used to determine the DRD. These activities had no impact on the Company s 2009 or the first nine months of 2010 results.

In December 2006, the IRS completed all fieldwork with respect to its examination of the consolidated federal income tax returns for tax years 2002 and 2003. The final report was initially submitted to the Joint Committee on Taxation for their review in April 2007. The final report was resubmitted in March 2008 and again in April 2008. The Joint Committee returned the report to the IRS for additional review of an industry issue regarding the methodology for calculating the DRD related to variable life insurance and annuity contracts. The IRS completed its review of the issue and proposed an adjustment with respect to the calculation of the DRD. In order to expedite receipt of an income tax refund related to the 2002 and 2003 tax years, the Company agreed to such adjustment. The report, with the adjustment to the DRD, was submitted to the Joint Committee on Taxation in October 2008. The Company was advised on January 2, 2009 that the Joint Committee completed its consideration of the report and took no exception to the conclusions reached by the IRS. Accordingly, the final report was processed and a $157 million refund was received in February 2009. The Company believes that its return position with respect to the calculation of the DRD is technically correct. Therefore, the Company filed protective refund claims on October 1, 2009 to recover the taxes associated with the agreed upon adjustment and to pursue such other actions as appropriate. The Company is working with its IRS audit team to bring the DRD issue to a close in accordance with the IDD. These activities had no impact on the Company s 2009 or the first nine months of 2010 results.

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

The Company s affiliates in Japan file separate tax returns and are subject to audits by the local taxing authority. The general statute of limitations is five years from when the return is filed. During 2009, the Tokyo Regional Taxation Bureau concluded a routine tax audit of the tax returns of Prudential Life Insurance Company Ltd. for its tax years ending March 31, 2004 to March 31, 2008. These activities had no material impact on the Company s 2009 or the first nine months of 2010 results.

The Company s affiliates in South Korea file separate tax returns and are subject to audits by the local taxing authority. The general statute of limitations is five years from when the return is filed. During 2009, a

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local district office in the South Korean tax authority concluded a routine tax audit of the local taxes for tax years ending March 31, 2004 through March 31, 2007 of Prudential Life Insurance Company of Korea, Ltd. (POK). During 2010, South Korea s National Tax Service concluded a general tax audit of POK s tax years ending March 31, 2006 to March 31, 2010. These activities had no material impact on the Company s 2009 or the first nine months of 2010 results.

On March 23, 2010, President Obama signed into law the Patient Protection and Affordable Care Act, which was modified by the Health Care and Education Reconciliation Act of 2010 signed into law on March 30, 2010, (together, the Healthcare Act). The federal government provides a subsidy to companies that provide certain retiree prescription drug benefits (the Medicare Part D subsidy), including the Company. The Medicare Part D subsidy was previously provided tax-free. However, as currently adopted, the Healthcare Act includes a provision that would reduce the tax deductibility of retiree health care costs to the extent of any Medicare Part D subsidy received. In effect, this provision of the Healthcare Act makes the Medicare Part D subsidy taxable beginning in 2013. Therefore, the Company incurred a charge in the first quarter of 2010 for the reduction of deferred tax assets of $94 million, which reduces net income and is reflected in Income tax expense (benefit).

The Healthcare Act also amended Section 162(m) of the Internal Revenue Code to limit the tax deductibility of compensation paid to certain employees of covered health insurance providers. Pursuant to this new provision, the Company could be considered a covered health insurance provider and could be subject to the limitation on the tax deductibility of certain compensation earned in 2010 but payable after 2012. As a result, the Company incurred a charge in the third quarter of 2010 of $12 million to reflect a portion of the Company s compensation expense that would not be deductible.

13. FAIR VALUE OF ASSETS AND LIABILITIES

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

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

Level 2 Fair value is based on significant inputs, other than Level 1 inputs, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include

quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities, and other market observable inputs. The Company s Level 2 assets and liabilities include: fixed maturities (corporate public and private bonds, most government securities, certain asset-backed and mortgage-

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backed securities, etc.), certain equity securities (mutual funds, which do not actively trade and are priced based on a net asset value) and commercial mortgage loans, short-term investments and certain cash equivalents (primarily commercial paper), and certain over-the-counter derivatives. Valuations are generally obtained from third party pricing services for identical or comparable assets or liabilities or through the use of valuation methodologies using observable market inputs. Prices from services are validated through comparison to trade data and internal estimates of current fair value, generally developed using market observable inputs and economic indicators.

Level 3 Fair value is based on at least one or more significant unobservable inputs for the asset or liability. These inputs reflect the Company s assumptions about the inputs market participants would use in pricing the asset or liability. The Company s Level 3 assets and liabilities primarily include: certain private fixed maturities and equity securities, certain manually priced public equity securities and fixed maturities, certain highly structured over-the-counter derivative contracts, certain commercial mortgage loans, certain consolidated real estate funds for which the Company is the general partner, and embedded derivatives resulting from certain products with guaranteed benefits. Prices are determined using valuation methodologies such as option pricing models, discounted cash flow models and other similar techniques. Non-binding broker quotes, which are utilized when pricing service information is not available, are reviewed for reasonableness based on the Company s understanding of the market, and are generally considered Level 3. Under certain conditions, based on its observations of transactions in active markets, the Company may conclude the prices received from independent third party pricing services or brokers are not reasonable or reflective of market activity. In those instances, the Company may choose to over-ride the third-party pricing information or quotes received and apply internally developed values to the related assets or liabilities. To the extent the internally developed valuations use significant unobservable inputs, they are classified as Level 3. As of September 30, 2010 and December 31, 2009, these over-rides on a net basis were not material.

Inactive Markets During 2009 and continuing through the first quarter of 2010, the Company observed that the volume and level of activity in the market for asset-backed securities collateralized by sub-prime mortgages remained at historically low levels. This stood in particular contrast to the markets for other structured products with similar cash flow and credit profiles. The Company also observed significant implied relative liquidity risk premiums, yields, and weighting of worst case cash flows for asset-backed securities collateralized by sub-prime mortgages in comparison with its own estimates for such securities. In contrast, the liquidity of other spread-based asset classes, such as corporate bonds, high yield and consumer asset-backed securities, such as those collateralized by credit cards or autos, which were previously more correlated with sub-prime securities, improved beginning in the second quarter of 2009. Based on this information, the Company concluded as of June 30, 2009, and continuing through March 31, 2010 that the market for asset-backed securities collateralized by sub-prime mortgages was inactive and also determined the pricing quotes it received were based on limited market transactions, calling into question their representation of observable fair value. As a result, the Company considered both third-party pricing information and an internally developed price based on a discounted cash flow model in determining the fair value of certain of these securities as of June 30, 2009 through March 31, 2010. Based on the unobservable inputs used in the discounted cash flow model and the limited observable market activity, the Company classified these securities within Level 3 as of June 30, 2009 through March 31, 2010.

Beginning in the second quarter of 2010, the Company observed an increasingly active market, as evidence of orderly transactions in asset-backed securities collateralized by sub-prime mortgages became more apparent. Additionally, the valuation based on the pricing the Company received from independent pricing services was not materially different from its internal estimates of current market value for these securities. As a result, where third party pricing information based on observable inputs was used to fair value the security, and based on the

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assessment that the market has been becoming increasingly active, the Company reported fair values for these asset-backed securities collateralized by sub-prime mortgages in Level 2 since June 30, 2010. As of September 30, 2010, the fair value of these securities included in Level 2 were $4,627 million included in Fixed Maturities Available for Sale Asset-Backed Securities and $212 million included in Trading Account Assets Supporting Insurance Liabilities Asset-Backed Securities.

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

	As of September 30, 2010				
	Level 1	Level 2	Level 3 (in millions)	Netting(2)	Total
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 11,159	$ 0	$	$ 11,159
Obligations of U.S. states and their political subdivisions	0	2,037	0		2,037
Foreign government bonds	0	49,833	32		49,865
Corporate securities	5	100,238	737		100,980
Asset-backed securities	0	8,812	1,683		10,495
Commercial mortgage-backed securities	0	12,180	143		12,323
Residential mortgage-backed securities	0	10,306	24		10,330
Subtotal	5	194,565	2,619		197,189
Trading account assets supporting insurance liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	245	0		245
Obligations of U.S. states and their political subdivisions	0	175	0		175
Foreign government bonds	0	553	0		553
Corporate securities	0	10,407	42		10,449
Asset-backed securities	0	780	176		956
Commercial mortgage-backed securities	0	2,267	5		2,272
Residential mortgage-backed securities	0	1,275	19		1,294
Equity securities	794	231	4		1,029
Short-term investments and cash equivalents	624	153	0		777
Subtotal	1,418	16,086	246		17,750
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	244	0		244
Obligations of U.S. states and their political subdivisions	0	113	0		113
Foreign government bonds	2	24	0		26
Corporate securities	8	282	31		321
Asset-backed securities	0	638	60		698
Commercial mortgage-backed securities	0	84	18		102
Residential mortgage-backed securities	0	166	20		186
Equity securities	314	142	28		484
All other activity	91	11,249	203	(8,041)	3,502
Subtotal	415	12,942	360	(8,041)	5,676
Equity securities, available for sale	4,004	2,921	347		7,272
Commercial mortgage and other loans	0	89	308		397
Other long-term investments	42	149	756		947

Short-term investments	3,980	1,447	0		5,427
Cash equivalents	1,967	6,560	0		8,527
Other assets	1,743	360	21		2,124
Subtotal excluding separate account assets	13,574	235,119	4,657	(8,041)	245,309
Separate account assets(1)	38,674	141,047	14,742		194,463
Total assets	$ 52,248	$ 376,166	$ 19,399	$ (8,041)	$ 439,772
Future policy benefits	$ 0	$ 0	$ 1,291	$	$ 1,291
Long-term debt	0	0	0		0
Other liabilities	30	7,721	2	(7,060)	693
Total liabilities	$ 30	$ 7,721	$ 1,293	$ (7,060)	$ 1,984

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	As of December 31, 2009(3)				
	Level 1	Level 2	Level 3 (in millions)	Netting(2)	Total
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 8,268	$ 0	$	$ 8,268
Obligations of U.S. states and their political subdivisions	0	1,375	0		1,375
Foreign government bonds	0	42,007	47		42,054
Corporate securities	5	89,794	902		90,701
Asset-backed securities	0	3,875	6,363		10,238
Commercial mortgage-backed securities	0	10,713	305		11,018
Residential mortgage-backed securities	0	11,467	104		11,571
Subtotal	5	167,499	7,721		175,225
Trading account assets supporting insurance liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	128	0		128
Obligations of U.S. states and their political subdivisions	0	31	0		31
Foreign government bonds	0	517	0		517
Corporate securities	0	9,419	83		9,502
Asset-backed securities	0	576	281		857
Commercial mortgage-backed securities	0	1,888	5		1,893
Residential mortgage-backed securities	0	1,412	20		1,432
Equity securities	700	232	3		935
Short-term investments and cash equivalents	338	387	0		725
Subtotal	1,038	14,590	392		16,020
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	95	0		95
Obligations of U.S. states and their political subdivisions	0	0	0		0
Foreign government bonds	1	23	0		24
Corporate securities	16	309	34		359
Asset-backed securities	0	894	97		991
Commercial mortgage-backed securities	0	109	27		136
Residential mortgage-backed securities	0	146	12		158
Equity securities	311	136	24		471
All other activity	37	4,707	297	(4,242)	799
Subtotal	365	6,419	491	(4,242)	3,033
Equity securities, available for sale	3,755	2,747	393		6,895
Commercial mortgage and other loans	0	114	338		452
Other long-term investments	36	66	498		600
Short-term investments	3,561	2,831	0		6,392
Cash equivalents	5,671	4,468	0		10,139
Other assets	2,391	176	27		2,594
Subtotal excluding separate account assets	16,822	198,910	9,860	(4,242)	221,350
Separate account assets(1)	33,641	127,381	13,052		174,074
Total assets	$ 50,463	$ 326,291	$ 22,912	$ (4,242)	$ 395,424
Future policy benefits	$ 0	$ 0	$ 55	$	$ 55
Long-term debt	0	0	429		429

Other liabilities	0	4,764	6	(3,841)	929
Total liabilities	$ 0	$ 4,764	$ 490	$ (3,841)	$ 1,413

(1) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. Separate account assets classified as Level 3 consist primarily of real estate and real estate investment funds. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in the Company s Unaudited Interim Consolidated Statement of Financial Position.

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

(3) Includes reclassifications to conform to current period presentation.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

If the Company ultimately concludes that pricing information received from the independent pricing service is not reflective of market activity, non-binding broker quotes are used, if available. If the Company concludes the values from both pricing services and brokers are not reflective of market activity, it may over-ride the information from the pricing service or broker with an internally developed valuation. As of September 30, 2010 and December 31, 2009 over-rides on a net basis were not material. Internally developed valuations or non-binding broker quotes are also used to determine fair value in circumstances where vendor pricing is not available. These estimates may use significant unobservable inputs, which reflect our own assumptions about the inputs market participants would use in pricing the asset. Circumstances where observable market data are not available may include events such as market illiquidity and credit events related to the security. Pricing service over-rides, internally developed valuations and non-binding broker quotes are generally included in Level 3 in our fair value hierarchy.

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

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Trading Account Assets Trading account assets (including trading account assets supporting insurance liabilities) consist primarily of public corporate bonds, treasuries, equity securities and derivatives whose fair values are determined consistent with similar instruments described above under Fixed Maturity Securities and below under Equity Securities and Derivative Instruments. Other trading account assets also include certain assets originally purchased under TALF, as described below under Long-Term Debt.

Equity Securities Equity securities consist principally of investments in common and preferred stock of publicly traded companies, privately traded securities, as well as common stock mutual fund shares. The fair values of most publicly traded equity securities are based on quoted market prices in active markets for identical assets and are classified within Level 1 in the fair value hierarchy. Estimated fair values for most privately traded equity securities are determined using valuation and discounted cash flow models that require a substantial level of judgment. In determining the fair value of certain privately traded equity securities the discounted cash flow model may also use unobservable inputs, which reflect the Company s assumptions about the inputs market participants would use in pricing the asset. Most privately traded equity securities are classified within Level 3. The fair values of common stock mutual fund shares that transact regularly (but do not trade in active markets because they are not publicly available) are based on transaction prices of identical fund shares and are classified within Level 2 in the fair value hierarchy. The fair values of preferred equity securities are based on prices obtained from independent pricing services and, in order to validate reasonability, are compared with directly observed recent market trades. Accordingly, these securities are generally classified within Level 2 in the fair value hierarchy.

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

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

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

The fair value of investments in funds holding publicly traded equity securities are generally based on quoted prices in active markets for identical investments and are therefore reflected as Level 1. The fair value of investments in funds holding public fixed maturities are generally based on validated quotes from pricing services or observable data as described above, and are reflected in Level 2. The fair value of investments in funds holding public fixed maturities that are subject to significant liquidity restrictions are reflected in Level 3.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

OTC derivative contracts are executed under master netting agreements with counterparties with a Credit Support Annex, or CSA, which is a bilateral ratings-sensitive agreement that requires collateral postings at established credit threshold levels. These agreements protect the interests of the Company and its counterparties, should either party suffer a credit rating deterioration. The vast majority of the Company s derivative agreements are with highly rated major international financial institutions. To reflect the market s perception of its own and the counterparty s non-performance risk, the Company incorporates additional spreads over London Interbank Offered Rate (LIBOR) into the discount rate used in determining the fair value of OTC derivative assets and liabilities. However, the non-performance risk adjustment is applied only to the uncollateralized portion of the

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OTC derivative assets and liabilities, after consideration of the impacts of two-way collateral posting. Most OTC derivative contracts have bid and ask prices that are actively quoted or can be readily obtained from external market data providers. The Company s policy is to use mid-market pricing in determining its best estimate of fair value and classify these derivative contracts as Level 2.

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

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

Other Assets and Other Liabilities Other assets carried at fair value include U.S. Treasury bills held within our global commodities group whose fair values are determined consistent with similar securities described above under Fixed Maturity Securities. Included in other liabilities are various derivatives contracts executed within our global commodities group, including exchange-traded futures, foreign currency and commodity contracts. The fair values of these derivative instruments are determined consistent with similar derivative instruments described above under Derivative Instruments.

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

The Company is also required to incorporate the market-perceived risk of its own non-performance in the valuation of the embedded derivatives associated with its optional living benefit features. Since insurance liabilities are senior to debt, the Company believes that reflecting the financial strength ratings of the Company s insurance subsidiaries in the valuation of the liability appropriately takes into consideration the Company s own risk of non-performance. To reflect the market s perception of its non-performance risk, the Company incorporates an additional

spread over LIBOR into the discount rate used in the valuations of the embedded derivatives associated with its optional living benefit features. The additional spread over LIBOR is determined

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taking into consideration publicly available information relating to the financial strength of the Company s insurance subsidiaries, as indicated by the credit spreads associated with funding agreements issued by these subsidiaries. The Company adjusts these credit spreads to remove any liquidity risk premium. The additional spread over LIBOR incorporated into the discount rate as of September 30, 2010 generally ranged from 100 to 200 basis points for the portion of the interest rate curve most relevant to these liabilities.

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

Long-Term Debt Long-term debt included funding received from the Federal Reserve Bank of New York on a non-recourse basis to finance the purchase of eligible asset-backed securities, under TALF, as of December 31, 2009. The Company valued these liabilities using various inputs including the value of the collateral (eligible asset-backed securities), a comparison of the liabilities spread over LIBOR to the spreads in current TALF offerings and various other market observable and non-observable inputs which incorporated significant management judgment. As a result, the pricing of the non-recourse liabilities were classified within Level 3 in the Company s fair value hierarchy. The pricing of the collateral assets (recorded in other trading account assets) was generally based on third party pricing information as discussed above, and included in Level 2 in the Company s fair value hierarchy. See Note 9 for additional information regarding the Company s participation in TALF.

Transfers between Levels 1 and 2 Periodically there are transfers between Level 1 and Level 2 for foreign common stocks held in the Company s Separate Account. In certain periods, an adjustment may be made to the fair value of these assets beyond the quoted market price to reflect events that occurred between the close of foreign trading markets and the close of U.S. trading markets for that day. If an adjustment is made in the reporting period, these Separate Account assets are classified as Level 2. When an adjustment is not made, they are classified as Level 1. This type of adjustment was made at June 30, 2010 and December 31, 2009, but not at September 30, 2010 or March 31, 2010. As a result, during the three months ended September 30, 2010, $2.8 billion of transfers from Level 2 to Level 1 occurred for these Separate Account assets. On a net basis, $3.4 billion of assets transferred from Level 2 to Level 1 for the nine months ended September 30, 2010.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Changes in Level 3 assets and liabilities The following tables provide a summary of the changes in fair value of Level 3 assets and liabilities for the three and nine months ended September 30, 2010, as well as the portion of gains or losses included in income for the three and nine months ended September 30, 2010 attributable to unrealized gains or losses related to those assets and liabilities still held at September 30, 2010.

	Three Months Ended September 30, 2010				
	Fixed Maturities Available For Sale-Foreign Government Bonds	Fixed Maturities Available For Sale-Corporate Securities	Fixed Maturities Available For Sale-Asset-Backed Securities	Fixed Maturities Available For Sale-Commercial Mortgage-Backed Securities	Fixed Maturities Available For Sale-Residential Mortgage-Backed Securities
			(in millions)		
Fair Value, beginning of period	$ 45	$ 843	$ 1,244	$ 170	$ 25
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	(4)	4	4	0
Asset management fees and other income	0	0	0	0	0
Included in other comprehensive income (loss)	3	21	28	0	0
Net investment income	0	2	6	1	0
Purchases, sales, issuances and settlements	0	(116)	456	(37)	(1)
Foreign currency translation	0	1	8	11	0
Other(1)	0	0	0	0	0
Transfers into Level 3(2)	0	32	0	(3)	0
Transfers out of Level 3(2)	(16)	(42)	(63)	(3)	0
Fair Value, end of period	$ 32	$ 737	$ 1,683	$ 143	$ 24
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ (8)	$ 3	$ 0	$ 0
Asset management fees and other income	$ 0	$ 0	$ 0	$ 0	$ 0
Included in other comprehensive income (loss)	$ 3	$ 26	$ 28	$ 3	$ 0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended September 30, 2010			
	Trading Account Assets Supporting Insurance Liabilities-Corporate Securities	Trading Account Assets Supporting Insurance Liabilities-Asset-Backed Securities	Trading Account Assets Supporting Insurance Liabilities-Commercial Mortgage-Backed Securities	Trading Account Assets Supporting Insurance Liabilities-Residential Mortgage-Backed Securities
	(in millions)			
Fair Value, beginning of period	$ 68	$ 113	$ 5	$ 20
Total gains or (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	0	0	0	0
Asset management fees and other income	(2)	3	0	0
Included in other comprehensive income (loss)	0	0	0	0
Net investment income	0	0	0	0
Purchases, sales, issuances and settlements	(21)	73	0	(1)
Transfers into Level 3(2)	0	0	0	0
Transfers out of Level 3(2)	(3)	(13)	0	0
Fair Value, end of period	$ 42	$ 176	$ 5	$ 19
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):				
Included in earnings:				
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0
Asset management fees and other income	$ (2)	$ 3	$ 0	$ 0
Included in other comprehensive income (loss)	$ 0	$ 0	$ 0	$ 0

	Three Months Ended September 30, 2010				
	Trading Account Assets Supporting Insurance Liabilities-Equity Securities	Other Trading Account Assets-Corporate Securities	Other Trading Account Assets-Asset-Backed Securities	Other Trading Account Assets-Commercial Mortgage-Backed Securities	Other Trading Account Assets-Residential Mortgage-Backed Securities
	(in millions)				
Fair Value, beginning of period	$ 5	$ 34	$ 55	$ 29	$ 23
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	0	0	0
Asset management fees and other income	0	0	3	(1)	2
Included in other comprehensive income (loss)	0	0	0	0	0

Net investment income		0		0		1		0		0
Purchases, sales, issuances and settlements		(1)		(1)		(11)		(11)		(3)
Foreign currency translation		0		0		3		2		1
Transfers into Level 3(2)		0		0		14		(1)		0
Transfers out of Level 3(2)		0		(2)		(5)		0		(3)
Fair Value, end of period	$	4	$	31	$	60	$	18	$	20
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):										
Included in earnings:										
Realized investment gains (losses), net	$	0	$	0	$	0	$	0	$	0
Asset management fees and other income	$	0	$	0	$	1	$	0	$	1
Included in other comprehensive income (loss)	$	0	$	0	$	0	$	0	$	0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended September 30, 2010				
	Other Trading Account Assets- Equity Securities	Other Trading Account Assets- All Other Activity	Equity Securities Available for Sale	Commercial Mortgage and Other Loans	Other Long-term Investments
			(in millions)		
Fair Value, beginning of period	$ 26	$ 266	$ 352	$ 296	$ 763
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	(56)	1	13	(7)
Asset management fees and other income	0	0	0	0	(1)
Included in other comprehensive income (loss)	0	0	(12)	0	0
Net investment income	0	0	0	0	1
Purchases, sales, issuances and settlements	1	(7)	(15)	(1)	0
Foreign currency translation	1	0	21	0	0
Transfers into Level 3(2)	0	0	0	0	0
Transfers out of Level 3(2)	0	0	0	0	0
Fair Value, end of period	$ 28	$ 203	$ 347	$ 308	$ 756
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ (57)	$ 0	$ 13	$ (7)
Asset management fees and other income	$ 0	$ (1)	$ 0	$ 0	$ 16
Included in other comprehensive income (loss)	$ 0	$ 0	$ (12)	$ 0	$ 0

	Three Months Ended September 30, 2010				
	Other Assets	Separate Account Assets(4)	Future Policy Benefits	Long-term Debt	Other Liabilities
			(in millions)		
Fair Value, beginning of period	$ 21	$ 13,994	$ (989)	$ 0	$ (6)
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	(221)	0	2
Asset management fees and other income	(1)	0	0	0	0
Interest credited to policyholders account balances	0	633	0	0	0
Included in other comprehensive income (loss)	0	0	0	0	0
Net investment income	0	0	0	0	0
Purchases, sales, issuances and settlements	1	167	(81)	0	2
Other	0	0	0	0	0
Transfers into Level 3(2)	0	6	0	0	0
Transfers out of Level 3(2)	0	(58)	0	0	0
Fair Value, end of period	$ 21	$ 14,742	$ (1,291)	$ 0	$ (2)

Unrealized gains (losses) for the period relating to those Level 3 assets and liabilities that were still held at the end of the period(3):										
Included in earnings:										
Realized investment gains (losses), net	$	0	$	0	$	(230)	$	0	$	2
Asset management fees and other income	$	0	$	0	$	0	$	0	$	0
Interest credited to policyholders account balances	$	0	$	315	$	0	$	0	$	0
Included in other comprehensive income (loss)	$	0	$	0	$	0	$	0	$	0

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Nine Months Ended September 30, 2010				
	Fixed Maturities Available For Sale-Foreign Government Bonds	Fixed Maturities Available For Sale-Corporate Securities	Fixed Maturities Available For Sale-Asset-Backed Securities	Fixed Maturities Available For Sale-Commercial Mortgage-Backed Securities	Fixed Maturities Available For Sale-Residential Mortgage-Backed Securities
			(in millions)		
Fair Value, beginning of period	$ 47	$ 902	$ 6,363	$ 305	$ 104
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	(27)	(55)	(128)	0
Asset management fees and other income	0	0	0	0	0
Included in other comprehensive income (loss)	2	82	126	37	0
Net investment income	0	9	(25)	(1)	0
Purchases, sales, issuances and settlements	0	(253)	202	(46)	(4)
Foreign currency translation	0	0	1	2	0
Other(1)	0	9	1	48	(48)
Transfers into Level 3(2)	0	162	129	8	2
Transfers out of Level 3(2)	(17)	(147)	(5,059)	(82)	(30)
Fair Value, end of period	$ 32	$ 737	$ 1,683	$ 143	$ 24
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ (30)	$ (67)	$ (133)	$ 0
Asset management fees and other income	$ 0	$ 0	$ 0	$ 0	$ 0
Included in other comprehensive income (loss)	$ 2	$ 91	$ 115	$ 39	$ 0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Nine Months Ended September 30, 2010			
	Trading Account Assets Supporting Insurance Liabilities-Corporate Securities	Trading Account Assets Supporting Insurance Liabilities-Asset Backed Securities	Trading Account Assets Supporting Insurance Liabilities-Commercial Mortgage-Backed Securities	Trading Account Assets Supporting Insurance Liabilities-Residential Mortgage-Backed Securities
	(in millions)			
Fair Value, beginning of period	$ 83	$ 281	$ 5	$ 20
Total gains or (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	0	0	0	0
Asset management fees and other income	(5)	1	2	1
Included in other comprehensive income (loss)	0	0	0	0
Net investment income	1	0	0	0
Purchases, sales, issuances and settlements	(38)	127	(1)	(2)
Transfers into Level 3(2)	37	9	31	0
Transfers out of Level 3(2)	(36)	(242)	(32)	0
Fair Value, end of period	$ 42	$ 176	$ 5	$ 19
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):				
Included in earnings:				
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0
Asset management fees and other income	$ (6)	$ 1	$ 4	$ 1
Included in other comprehensive income (loss)	$ 0	$ 0	$ 0	$ 0

	Nine Months Ended September 30, 2010				
	Trading Account Assets Supporting Insurance Liabilities-Equity Securities	Other Trading Account Assets-Corporate Securities	Other Trading Account Assets-Asset-Backed Securities	Other Trading Account Assets-Commercial Mortgage-Backed Securities	Other Trading Account Assets-Residential Mortgage-Backed Securities
	(in millions)				
Fair Value, beginning of period	$ 3	$ 34	$ 97	$ 27	$ 12
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	0	0	0
Asset management fees and other income	2	0	6	3	2
Included in other comprehensive income (loss)	0	0	0	0	0
Net investment income	0	0	1	1	0
Purchases, sales, issuances and settlements	(1)	1	(64)	(13)	(4)

Foreign currency translation	0	0	2	2	2
Other(1)	0	(2)	5	(2)	2
Transfers into Level 3(2)	0	0	20	6	10
Transfers out of Level 3(2)	0	(2)	(7)	(6)	(4)
Fair Value, end of period	$ 4	$ 31	$ 60	$ 18	$ 20
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 0
Asset management fees and other income	$ 2	$ 1	$ 4	$ 2	$ 1
Included in other comprehensive income (loss)	$ 0	$ 0	$ 0	$ 0	$ 0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Nine Months Ended September 30, 2010				
	Other Trading Account Assets- Equity Securities	Other Trading Account Assets- All Other Activity	Equity Securities Available for Sale (in millions)	Commercial Mortgage and Other Loans	Other Long-term Investments
Fair Value, beginning of period	$ 24	$ 297	$ 393	$ 338	$ 498
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	(1)	23	20	(10)
Asset management fees and other income	0	4	0	0	39
Included in other comprehensive income (loss)	0	0	(15)	0	0
Net investment income	0	0	0	0	2
Purchases, sales, issuances and settlements	4	(94)	(66)	(50)	227
Foreign currency translation	0	0	9	0	0
Other(1)	0	(3)	0	0	0
Transfers into Level 3(2)	0	0	3	0	0
Transfers out of Level 3(2)	0	0	0	0	0
Fair Value, end of period	$ 28	$ 203	$ 347	$ 308	$ 756
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ (1)	$ (29)	$ 20	$ (10)
Asset management fees and other income	$ 0	$ 4	$ 0	$ 0	$ 36
Included in other comprehensive income (loss)	$ 0	$ 0	$ 30	$ 0	$ 0

	Nine Months Ended September 30, 2010				
	Other Assets	Separate Account Assets (4)	Future Policy Benefits (in millions)	Long-term Debt	Other Liabilities
Fair Value, beginning of period	$ 27	$ 13,052	$ (55)	$ (429)	$ (6)
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	(1,020)	0	2
Asset management fees and other income	(7)	0	0	0	0
Interest credited to policyholders account balances	0	1,242	0	0	0
Included in other comprehensive income (loss)	0	0	0	0	0
Net investment income	0	0	0	0	0
Purchases, sales, issuances and settlements	1	782	(216)	429	2
Other	0	0	0	0	0
Transfers into Level 3(2)	0	41	0	0	0
Transfers out of Level 3(2)	0	(375)	0	0	0
Fair Value, end of period	$ 21	$ 14,742	$ (1,291)	$ 0	$ (2)

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

Included in earnings:										
Realized investment gains (losses), net	$	0	$	0	$	(1,035)	$	0	$	2
Asset management fees and other income	$	(6)	$	0	$	0	$	0	$	0
Interest credited to policyholders account balances	$	0	$	409	$	0	$	0	$	0
Included in other comprehensive income (loss)	$	0	$	0	$	0	$	0	$	0

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Transfers Transfers out of Level 3 for Fixed Maturities Available for Sale Asset-Backed Securities and Trading Account Assets Supporting Insurance Liabilities Asset-Backed Securities include $4,974 million and $222 million, respectively, for the nine months ended September 30, 2010 resulting from the Company s conclusion that the market for asset-backed securities collateralized by sub-prime mortgages has been becoming increasingly active, as evidenced by orderly transactions. The pricing received from independent pricing services could be validated by the Company, as discussed in detail above. Other transfers out of Level 3 were typically due to the use of observable inputs in valuation methodologies as well as the utilization of pricing service information for certain assets that the Company was able to validate. Transfers into Level 3 were primarily the result of unobservable inputs utilized within valuation methodologies and the use of broker quotes (that could not be validated) when previously, information from third party pricing services (that could be validated) was utilized.

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

	Three Months Ended September 30, 2009				
	Fixed Maturities Available For Sale-Foreign Government Bonds	Fixed Maturities Available For Sale-Corporate Securities	Fixed Maturities Available For Sale-Asset-Backed Securities (in millions)	Fixed Maturities Available For Sale-Commercial Mortgage-Backed Securities	Fixed Maturities Available For Sale-Residential Mortgage-Backed Securities
Fair Value, beginning of period	$ 43	$ 1,279	$ 6,014	$ 59	$ 197
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	(8)	(242)	(16)	0
Asset management fees and other income	0	0	0	0	0
Included in other comprehensive income (loss)	2	85	1,041	(16)	3
Net investment income	0	3	16	5	1
Purchases, sales, issuances and settlements	138	(77)	(544)	(4)	(16)
Foreign currency translation	0	1	7	8	0
Other(1)	0	0	4	0	0
Transfers into Level 3(2)	0	150	162	264	0
Transfers out of Level 3(2)	0	(79)	(15)	0	0
Fair Value, end of period	$ 183	$ 1,354	$ 6,443	$ 300	$ 185
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					

Realized investment gains (losses), net	$ 0	$ (9)	$ (242)	$ (17)	$ 0
Asset management fees and other income	$ 0	$ 0	$ 0	$ 0	$ 0
Included in other comprehensive income (loss)	$ 1	$ 74	$ 1,026	$ (16)	$ 3

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended September 30, 2009				
	Trading Account Assets Supporting Insurance Liabilities-Foreign Government Bonds	Trading Account Assets Supporting Insurance Liabilities-Corporate Securities	Trading Account Assets Supporting Insurance Liabilities-Asset Backed Securities	Trading Account Assets Supporting Insurance Liabilities-Commercial Mortgage-Backed Securities	Trading Account Assets Supporting Insurance Liabilities-Residential Mortgage-Backed Securities
	(in millions)				
Fair Value, beginning of period	$ 0	$ 197	$ 269	$ 5	$ 24
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	0	0	0
Asset management fees and other income	0	10	32	0	3
Included in other comprehensive income (loss)	0	0	0	0	0
Net investment income	0	(1)	0	0	0
Purchases, sales, issuances and settlements	12	(12)	(23)	0	(1)
Transfers into Level 3(2)	0	45	2	0	0
Transfers out of Level 3(2)	0	(28)	(9)	0	0
Fair Value, end of period	$ 12	$ 211	$ 271	$ 5	$ 26
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 0
Asset management fees and other income	$ 0	$ 10	$ 20	$ 0	$ 3
Included in other comprehensive income (loss)	$ 0	$ 0	$ 0	$ 0	$ 0

	Three Months Ended September 30, 2009				
	Trading Account Assets Supporting Insurance Liabilities-Equity Securities	Other Trading Account Assets-Corporate Securities	Other Trading Account Assets-Asset-Backed Securities	Other Trading Account Assets-Commercial Mortgage-Backed Securities	Other Trading Account Assets-Residential Mortgage-Backed Securities
	(in millions)				
Fair Value, beginning of period	$ 2	$ 59	$ 35	$ 9	$ 6
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	0	0	0
Asset management fees and other income	0	3	(1)	(2)	3
Included in other comprehensive income (loss)	0	0	0	0	0
Net investment income	0	0	0	0	0
Purchases, sales, issuances and settlements	0	2	1	0	(2)

Foreign currency translation	0		0		1		1		0
Other(1)	0		4		0		0		0
Transfers into Level 3(2)	0		1		3		18		1
Transfers out of Level 3(2)	0		0		0		0		0
Fair Value, end of period	$ 2	$	69	$	39	$	26	$	8
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):									
Included in earnings:									
Realized investment gains (losses), net	$ 0	$	0	$	0	$	0	$	0
Asset management fees and other income	$ 0	$	2	$	(2)	$	(4)	$	1
Included in other comprehensive income (loss)	$ 0	$	0	$	0	$	0	$	0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended September 30, 2009 (in millions)				
	Other Trading Account Assets-Equity Securities	Other Trading Account Assets-All Other Activity	Equity Securities Available for Sale	Commercial Mortgage and Other Loans	Other Long-term Investments
Fair Value, beginning of period	$ 21	$ 906	$ 351	$ 0	$ 495
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	(152)	(17)	(11)	3
Asset management fees and other income	1	15	0	0	(62)
Included in other comprehensive income (loss)	0	0	35	0	0
Net investment income	0	0	0	0	0
Purchases, sales, issuances and settlements	3	(1)	(6)	0	(22)
Foreign currency translation	0	0	7	0	0
Other(1)	0	2	1	0	62
Transfers into Level 3(2)	0	0	5	414	0
Transfers out of Level 3(2)	0	0	(5)	0	0
Fair Value, end of period	$ 25	$ 770	$ 371	$ 403	$ 476
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ (137)	$ (17)	$ (11)	$ 3
Asset management fees and other income	$ 2	$ (1)	$ 0	$ 0	$ (67)
Included in other comprehensive income (loss)	$ 0	$ 0	$ 35	$ 0	$ 0

	Three Months Ended September 30, 2009 (in millions)				
	Other Assets	Separate Account Assets(4)	Future Policy Benefits	Long-term Debt	Other Liabilities
Fair Value, beginning of period	$ 26	$ 14,199	$ (796)	$ (1,167)	$ (79)
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	80	0	38
Asset management fees and other income	0	0	0	0	0
Interest credited to policyholders account balances	0	(1,142)	0	0	0
Included in other comprehensive income (loss)	0	0	0	0	0
Net investment income	0	0	0	0	0
Purchases, sales, issuances and settlements	0	(82)	(36)	188	1
Transfers into Level 3(2)	0	427	0	0	0
Transfers out of Level 3(2)	0	(89)	0	0	0
Fair Value, end of period	$ 26	$ 13,313	$ (752)	$ (979)	$ (40)
Unrealized gains (losses) for the period relating to those Level 3 assets and liabilities that were still held at the end of the period(3):					

Included in earnings:					
Realized investment gains (losses), net	$ 0	$ 0	$ 50	$ 0	$ 38
Asset management fees and other income	$ 0	$ 0	$ 0	$ 0	$ 0
Interest credited to policyholders account balances	$ 0	$ (1,470)	$ 0	$ 0	$ 0
Included in other comprehensive income (loss)	$ 0	$ 0	$ 0	$ 0	$ 0

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Transfers Transfers into Level 3 for Fixed Maturities, Available for Sale Commercial Mortgage-Backed securities for the three months ended September 30, 2009 is primarily the result of over-riding the third party pricing information downward with internally developed valuations for certain securities held in the Japanese insurance operations portfolio. Transfers into Level 3 for Commercial Mortgage and Other Loans for the three months ended September 30, 2009 is primarily due to downward credit migration of these loans. The downgrade in loans has resulted in the utilization of higher credit spreads, that are internally developed and not observable in the market place. This increase in credit spreads is now considered a significant input in the fair value calculation for these loans. Other transfers into Level 3 were primarily the result of unobservable inputs utilized within valuation methodologies and the use of broker quotes (that could not be validated) when previously, information from third party pricing services (that could be validated) was utilized. Transfers out of Level 3 were typically due to the use of observable inputs in valuation methodologies as well as the utilization of pricing service information for certain assets that the Company was able to validate.

	Nine Months Ended September 30, 2009				
	Fixed Maturities Available For Sale-Foreign Government Bonds	Fixed Maturities Available For Sale-Corporate Securities	Fixed Maturities Available For Sale-Asset-Backed Securities	Fixed Maturities Available For Sale-Commercial Mortgage-Backed Securities	Fixed Maturities Available For Sale-Residential Mortgage-Backed Securities
			(in millions)		
Fair Value, beginning of period	$ 30	$ 932	$ 1,013	$ 66	$ 228
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	(92)	(570)	(18)	0
Asset management fees and other income	0	0	0	0	0
Included in other comprehensive income (loss)	5	102	1,892	(21)	3
Net investment income	0	12	12	5	1
Purchases, sales, issuances and settlements	138	(14)	(1,155)	(4)	(47)
Foreign currency translation	0	1	5	8	0
Other(1)	0	(24)	4	0	0
Transfers into Level 3(2)	10	629	5,275	264	0
Transfers out of Level 3(2)	0	(192)	(33)	0	0
Fair Value, end of period	$ 183	$ 1,354	$ 6,443	$ 300	$ 185
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ (93)	$ (571)	$ (18)	$ 0
Asset management fees and other income	$ 0	$ 0	$ 0	$ 0	$ 0
Included in other comprehensive income (loss)	$ 5	$ 86	$ 1,839	$ (21)	$ 3

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Nine Months Ended September 30, 2009				
	Trading Account Assets Supporting Insurance Liabilities-Foreign Government Bonds	Trading Account Assets Supporting Insurance Liabilities-Corporate Securities	Trading Account Assets Supporting Insurance Liabilities-Asset Backed Securities	Trading Account Assets Supporting Insurance Liabilities-Commercial Mortgage-Backed Securities	Trading Account Assets Supporting Insurance Liabilities-Residential Mortgage-Backed Securities
			(in millions)		
Fair Value, beginning of period	$ 0	$ 75	$ 35	$ 6	$ 28
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	0	0	0
Asset management fees and other income	0	17	48	(1)	3
Included in other comprehensive income (loss)	0	0	0	0	0
Net investment income	0	1	0	0	0
Purchases, sales, issuances and settlements	12	(40)	(56)	0	(3)
Transfers into Level 3(2)	0	223	253	0	0
Transfers out of Level 3(2)	0	(65)	(9)	0	(2)
Fair Value, end of period	$ 12	$ 211	$ 271	$ 5	$ 26
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 0
Asset management fees and other income	$ 0	$ 13	$ 36	$ (1)	$ 3
Included in other comprehensive income (loss)	$ 0	$ 0	$ 0	$ 0	$ 0

	Nine Months Ended September 30, 2009				
	Trading Account Assets Supporting Insurance Liabilities-Equity Securities	Other Trading Account Assets-Corporate Securities	Other Trading Account Assets-Asset-Backed Securities	Other Trading Account Assets-Commercial Mortgage-Backed Securities	Other Trading Account Assets-Residential Mortgage-Backed Securities
			(in millions)		
Fair Value, beginning of period	$ 1	$ 38	$ 30	$ 2	$ 3
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	0	0	0
Asset management fees and other income	0	3	(42)	(4)	1
Included in other comprehensive income (loss)	0	0	0	0	0
Net investment income	0	0	1	0	0
Purchases, sales, issuances and settlements	1	2	820	0	(1)

Foreign currency translation	0	0	1	1	0
Other(1)	0	25	0	0	0
Transfers into Level 3(2)	0	1	18	28	7
Transfers out of Level 3(2)	0	0	(789)	(1)	(2)
Fair Value, end of period	$ 2	$ 69	$ 39	$ 26	$ 8
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ 0	$ 0	$ 0	$ 0
Asset management fees and other income	$ 0	$ 2	$ (43)	$ (6)	$ 0
Included in other comprehensive income (loss)	$ 0	$ 0	$ 0	$ 0	$ 0

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Nine Months Ended September 30, 2009				
	Other Trading Account Assets-Equity Securities	**Other Trading Account Assets-All Other Activity**	**Equity Securities Available for Sale**	**Commercial Mortgage and Other Loans**	**Other Long-term Investments**
			(in millions)		
Fair Value, beginning of period	$ 19	$ 1,304	$ 325	$ 56	$ 1,015
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	(281)	(20)	(16)	3
Asset management fees and other income	0	12	0	0	(88)
Included in other comprehensive income (loss)	0	0	55	0	0
Net investment income	0	0	0	0	0
Purchases, sales, issuances and settlements	3	(272)	1	(51)	140
Foreign currency translation	0	0	5	0	0
Other(1)	3	7	0	0	(594)
Transfers into Level 3(2)	0	0	11	414	0
Transfers out of Level 3(2)	0	0	(6)	0	0
Fair Value, end of period	$ 25	$ 770	$ 371	$ 403	$ 476
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ (270)	$ (21)	$ (11)	$ 3
Asset management fees and other income	$ 1	$ 1	$ 0	$ 0	$ (67)
Included in other comprehensive income (loss)	$ 0	$ 0	$ 55	$ 0	$ 0

	Nine Months Ended September 30, 2009				
	Other Assets	**Separate Account Assets(4)**	**Future Policy Benefits**	**Long-term Debt**	**Other Liabilities**
			(in millions)		
Fair Value, beginning of period	$ 26	$ 19,780	$ (3,229)	$ (324)	$ (139)
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	0	0	2,565	0	62
Asset management fees and other income	0	0	0	0	0
Interest credited to policyholders account balances	0	(6,714)	0	0	0
Included in other comprehensive income (loss)	0	0	0	0	0
Net investment income	0	0	0	0	0
Purchases, sales, issuances and settlements	0	179	(88)	(979)	37
Other(1)	0	0	0	324	0
Transfers into Level 3(2)	0	445	0	0	0
Transfers out of Level 3(2)	0	(377)	0	0	0
Fair Value, end of period	$ 26	$ 13,313	$ (752)	$ (979)	$ (40)

Unrealized gains (losses) for the period relating to those Level 3 assets and liabilities that were still held at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 0	$ 0	$ 2,485	$ 0	$ 62
Asset management fees and other income	$ 0	$ 0	$ 0	$ 0	$ 0
Interest credited to policyholders account balances	$ 0	$ (6,819)	$ 0	$ 0	$ 0
Included in other comprehensive income (loss)	$ 0	$ 0	$ 0	$ 0	$ 0

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Transfers Transfers into Level 3 for Fixed Maturities Available for Sale Asset-Backed securities and Trading Account Assets Supporting Insurance Liabilities Asset-Backed securities include $4,583 million and $188 million, respectively for the nine months ended September 30, 2009, resulting from the Company s conclusion that the market for asset-backed securities collateralized by sub-prime mortgages was an inactive market, as discussed above. Transfers into Level 3 for Fixed Maturities, Available for Sale Commercial Mortgage-Backed securities for the nine months ended September 30, 2009 is primarily the result of over-riding the third party pricing information downward with internally developed valuations for certain securities held in the Japanese insurance operations portfolio. Transfers into Level 3 for Commercial Mortgage and Other Loans for the nine months ended September 30, 2009 is primarily due to downward credit migration of these loans. The downgrade in loans has resulted in the utilization of higher credit spreads, that are internally developed and not observable in the market place. This increase in credit spreads is now considered a significant input in the fair value calculation for these loans. Transfers out of Level 3 for Other Trading Account Assets Asset Backed securities were primarily the result of the use of third party pricing for the securities purchased under TALF. In the first quarter of 2009, these assets were valued internally using a model.

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

Derivative Fair Value Information

The following tables present additional information regarding derivative assets and liabilities by primary underlying. These derivative assets and liabilities are included in Other trading account assets, Other long-term investments or Other liabilities in the tables presented above. These tables exclude embedded derivatives which are recorded with the associated host contract.

The table below presents the balance of derivative assets and liabilities measured at fair value on a recurring basis as of the date indicated.

	As of September 30, 2010				
	Level 1	Level 2	Level 3	Netting(1)	Total
			(in millions)		
Derivative assets:					
Interest Rate	$ 4	$ 6,632	$ 0	$	$ 6,636
Currency	0	322	0		322
Credit	0	102	0		102
Currency/Interest Rate	0	269	0		269
Equity	4	782	196		982
Broker-dealer	29	2,932	0		2,961
Netting(1)				(8,041)	(8,041)

Total derivative assets	$ 37	$ 11,039	$ 196	$ (8,041)	$ 3,231
Derivative liabilities:					
Interest Rate	$ (2)	$ (3,475)	$ 0	$	$ (3,477)
Currency	0	(452)	0		(452)
Credit	0	(123)	0		(123)
Currency/Interest Rate	0	(640)	0		(640)
Equity	0	(246)	0		(246)
Broker-dealer	(2)	(2,884)	0		(2,886)
Netting(1)				7,060	7,060
Total derivative liabilities	$ (4)	$ (7,820)	$ 0	$ 7,060	$ (764)

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Changes in Level 3 derivative assets and liabilities The following tables provide a summary of the changes in fair value of Level 3 derivative assets and liabilities for the three and nine months ended September 30, 2010, as well as the portion of gains or losses included in income for the three and nine months ended September 30, 2010, attributable to unrealized gains or losses related to those assets and liabilities still held at September 30, 2010.

	Three Months Ended September 30, 2010	
	Derivative Assets- Equity	Derivative Liabilities- Credit
	(in millions)	
Fair Value, beginning of period	$ 259	$ (3)
Total gains or (losses) (realized/unrealized):	0	0
Included in earnings:	0	0
Realized investment gains (losses), net	(60)	3
Asset management fees and other income	0	0
Purchases, sales, issuances and settlements	(3)	0
Transfers into Level 3(1)	0	0
Transfers out of Level 3(1)	0	0
Fair Value, end of period	$ 196	$ 0
Unrealized gains (losses) for the period relating to those level 3 assets that were still held at the end of the period:		
Included in earnings:		
Realized investment gains (losses), net	$ (60)	$ 3
Asset management fees and other income	$ 0	$ 0

	Nine Months Ended September 30, 2010	
	Derivative Assets- Equity	Derivative Liabilities- Credit
	(in millions)	
Fair Value, beginning of period	$ 297	$ (5)
Total gains or (losses) (realized/unrealized):	0	0
Included in earnings:	0	0
Realized investment gains (losses), net	(42)	5
Asset management fees and other income	0	0
Purchases, sales, issuances and settlements	(59)	0
Foreign currency translation	0	0
Other(1)	0	0
Transfers into Level 3(1)	0	0
Transfers out of Level 3(1)	0	0

Fair Value, end of period	$ 196	$ 0
Unrealized gains (losses) for the period relating to those level 3 assets that were still held at the end of the period:		
Included in earnings:		
Realized investment gains (losses), net	$ (36)	$ 5
Asset management fees and other income	$ (6)	$ 0

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

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Nonrecurring Fair Value Measurements Certain assets and liabilities are measured at fair value on a nonrecurring basis. Nonrecurring fair value reserve adjustments resulted in $23 million and $65 million of net losses being recorded for the three and nine months ended September 30, 2010 on certain commercial mortgage loans, respectively. The carrying value of these loans as of September 30, 2010 was $316 million. Similar commercial mortgage loan reserve adjustments of $99 million and $227 million in net losses were recorded for the three and nine months ended September 30, 2009, respectively. The reserve adjustments were based on discounted cash flows utilizing market rates and were classified as Level 3 in the hierarchy.

Impairments of $2 million and $9 million were recorded for the three months ended September 30, 2010 and 2009, respectively, and $6 million and $44 million for the nine months ended September 30, 2010 and 2009, respectively, on certain cost method investments. The carrying values as of September 30, 2010 and 2009 of these impaired investments are $158 million and $176 million, respectively. These fair value adjustments were based on inputs classified as Level 3 in the valuation hierarchy. The inputs utilized were primarily discounted estimated future cash flows and, where appropriate, valuations provided by the general partners taken into consideration with deal and management fee expenses.

Fair Value Option The following table presents information regarding changes in fair values recorded in earnings for commercial mortgage loans, other long-term investments and long-term debt, where the fair value option has been elected.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Assets:				
Commercial mortgage loans:				
Changes in instrument-specific credit risk	$ 4	$ (9)	$ 8	$ (44)
Other changes in fair value	$ 5	$ 0	$ 7	$ 1
Other long-term investments				
Changes in fair value	$ 8	$ 0	$ 8	$ 0
Liabilities:				
Long-term debt:				
Changes in fair value	$ 0	$ 0	$ 0	$ 0

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

Interest income on commercial mortgage loans is included in net investment income. Interest income on these loans was $7 million and $10 million for the three months ended September 30, 2010 and 2009, respectively, and $21 million and $30 million for the nine months ended September 30, 2010 and 2009, respectively. Interest income on these loans is recorded based on the effective interest rates as determined at the

closing of the loan.

The fair values and aggregate contractual principal amounts of commercial mortgage loans, for which the fair value option has been elected, were $418 million and $453 million, respectively, as of September 30, 2010, and $479 million and $556 million, respectively as December 31, 2009. As of September 30, 2010, loans that were in nonaccrual status had fair values of $97 million and aggregate contractual principal amounts of $109 million.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The fair value of other long-term investments was $244 million as of September 30, 2010.

As of first quarter 2010 the Company no longer has any outstanding debt that is carried at fair value under the fair value option. The Company recorded $4 million and $8 million of interest expense for the three and nine months ended September 30, 2009, respectively for debt carried at fair value under the fair value option during 2009.

Fair Value of Financial Instruments

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

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

	September 30, 2010		December 31, 2009	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in millions)			
Assets:				
Fixed maturities, held to maturity	$ 5,233	$ 5,522	$ 5,120	$ 5,197
Commercial mortgage and other loans(1)	31,924	33,379	31,384	30,693
Policy loans	10,544	13,286	10,146	11,837
Liabilities:				
Policyholders account balances investment contracts	$ 76,559	$ 78,489	$ 73,674	$ 74,353
Short-term and long-term debt(1)	24,909	26,543	24,159	24,054
Debt of consolidated VIEs	382	259	413	239
Bank customer liabilities	1,737	1,755	1,523	1,538

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

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

Fixed Maturities, held to maturity

The fair values of public fixed maturity securities are generally based on prices from third party pricing services, which are reviewed to validate reasonability. However, for certain public fixed maturity securities and investments in private placement fixed maturity securities, this information is either not available or not reliable. For these public fixed maturity securities the fair value is based on non-binding broker quotes, if available, or determined using a discounted cash flow model or internally developed values. For private fixed maturities fair value is determined using a discounted cash flow model, which utilizes a discount rate based upon the average of spread surveys collected from private market intermediaries who are active in both primary and secondary

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

transactions and takes into account, among other factors, the credit quality and industry sector of the issuer and the reduced liquidity associated with private placements. In determining the fair value of certain fixed maturity securities, the discounted cash flow model may also use unobservable inputs, which reflect the Company s own assumptions about the inputs market participants would use in pricing the security.

Commercial Mortgage and Other Loans

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

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

Policy Loans

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

Investment Contracts Policyholders Account Balances

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

Debt

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Bank Customer Liabilities

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

14. DERIVATIVE INSTRUMENTS

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

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

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

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

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

Under currency forwards, the Company agrees with other parties to deliver a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. As noted above, the Company uses currency

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

forwards to mitigate the risk that unfavorable changes in currency exchange rates will reduce U.S. dollar equivalent earnings generated by certain of its non-U.S. businesses, primarily its international insurance and investments operations. The Company executes forward sales of the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these forwards correspond with the future periods in which the non-U.S. earnings are expected to be generated. These earnings hedges do not qualify for hedge accounting.

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

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

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

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

The Company sells variable annuity products, which may include guaranteed benefit features that are accounted for as embedded derivatives. These embedded derivatives are marked to market through Realized

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

	September 30, 2010			December 31, 2009		
	Notional	Fair Value		Notional	Fair Value	
	Amount	Assets	Liabilities	Amount	Assets	Liabilities
	(in millions)					
Qualifying Hedge Relationships						
Interest Rate	$ 7,073	$ 174	$ (607)	$ 7,793	$ 101	$ (414)
Currency	1,094	87	(27)	1,392	3	(17)
Currency/Interest Rate	3,249	83	(366)	2,452	47	(326)
Total Qualifying Hedge Relationships	$ 11,416	$ 344	$ (1,000)	$ 11,637	$ 151	$ (757)
Non-Qualifying Hedge Relationships						
Interest Rate	$ 123,216	$ 6,462	$ (2,870)	$ 97,265	$ 2,545	$ (2,129)
Currency	10,494	235	(425)	11,692	223	(220)
Credit	3,117	102	(123)	3,788	259	(110)
Currency/Interest Rate	5,061	186	(274)	5,396	122	(268)
Equity	25,559	982	(246)	7,126	618	(86)
Total Non-Qualifying Hedge Relationships	$ 167,447	$ 7,967	$ (3,938)	$ 125,267	$ 3,767	$ (2,813)

Total Derivatives(1)	$ 178,863	$ 8,311	$ (4,938)	$ 136,904	$ 3,918	$ (3,570)

(1) Excludes embedded derivatives which contain multiple underlyings. The fair value of these embedded derivatives was a liability of $1,571 million as of September 30, 2010 and a liability of $391 million as of December 31, 2009, included in Future policy benefits and Fixed maturities, available for sale.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Cash Flow, Fair Value and Net Investment Hedges

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Qualifying Hedges				
Fair value hedges				
Interest Rate				
Realized investment gains (losses), net	$ (44)	$ (61)	$ (169)	$ 243
Net investment income	(35)	(39)	(116)	(119)
Interest expense-(increase)/decrease	6	1	12	2
Interest credited to policyholder account balances-(increase)/decrease	16	20	51	49
Currency				
Realized investment gains (losses), net	(4)	10	89	10
Net investment income	(1)	0	(3)	0
Other income	0	0	0	2
Total fair value hedges	$ (62)	$ (69)	$ (136)	$ 187
Cash flow hedges				
Interest Rate				
Interest expense-(increase)/decrease	(4)	(4)	(14)	(12)
Interest credited to policyholder account balances-(increase)/decrease	(1)	(2)	(2)	(5)
Accumulated other comprehensive income (loss)(1)	(12)	(5)	(33)	42
Currency/Interest Rate				
Net investment income	(1)	(2)	(7)	(6)
Other income	16	4	10	3
Accumulated other comprehensive income (loss)(1)	(171)	(51)	57	(143)
Total cash flow hedges	$ (173)	$ (60)	$ 11	$ (121)
Net investment hedges				
Currency				

Realized investment gains (losses), net(2)	0	0	0	36
Accumulated other comprehensive income (loss)(1)	(35)	(33)	(64)	(73)
Currency/Interest Rate				
Accumulated other comprehensive income (loss)(1)	(47)	(61)	(50)	(78)
Total net investment hedges	$ (82)	$ (94)	$ (114)	$ (115)
Non-qualifying Hedges				
Realized investment gains (losses), net				
Interest Rate	1,329	746	3,727	(1,306)
Currency	(259)	(234)	(139)	(200)
Currency/Interest Rate	(139)	(61)	68	(192)
Credit	(20)	43	(83)	66
Equity	(820)	(616)	(341)	(1,102)
Embedded Derivatives (Interest/Equity/Credit)	(172)	251	(967)	2,749
Total non-qualifying hedges	$ (81)	$ 129	$ 2,265	$ 15
Total Derivative Impact	$ (398)	$ (94)	$ 2,026	$ (34)

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

For the three and nine months ended September 30, 2010 the ineffective portion of derivatives accounted for using hedge accounting was not material to the Company s results of operations and there were no material amounts reclassified into earnings relating to instances in which the Company discontinued cash flow hedge accounting because the forecasted transaction did not occur by the anticipated date or within the additional time period permitted by the authoritative guidance for the accounting for derivatives and hedging. In addition, there were no instances in which the Company discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge.

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

	(in millions)
Balance, December 31, 2009	$ (317)
Net deferred gains on cash flow hedges from January 1 to September 30, 2010	11
Amount reclassified into current period earnings	13
Balance, September 30, 2010	$ (293)

Using September 30, 2010 values it is anticipated that a pre-tax loss of approximately $28 million will be reclassified from Accumulated other comprehensive income (loss) to earnings during the subsequent twelve months ending September 30, 2011, offset by amounts pertaining to the hedged items. As of September 30, 2010, the Company does not have any qualifying cash flow hedges of forecasted transactions other than those related to the variability of the payment or receipt of interest or foreign currency amounts on existing financial instruments. The maximum length of time for which these variable cash flows are hedged is 13 years. Income amounts deferred in Accumulated other comprehensive income (loss) as a result of cash flow hedges are included in Net unrealized investment gains (losses) in the Unaudited Interim Consolidated Statements of Equity.

For effective net investment hedges, the amounts, before applicable taxes, recorded in the cumulative translation adjustment account within Accumulated other comprehensive income (loss) was $13 million and $127 million as of September 30, 2010 and December 31, 2009, respectively.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Credit Derivatives Written

The following tables set forth the Company s exposure from credit derivatives where the Company has written credit protection, excluding a credit derivative related to surplus notes issued by a subsidiary of Prudential Insurance and embedded derivatives contained in externally-managed investments in the European market, by NAIC rating of the underlying credits as of September 30, 2010 and December 31, 2009.

	September 30, 2010					
	Single Name		First to Default Basket		Total	
NAIC Designation(1)	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
	(in millions)					
1	$ 295	$ 2	$ 60	$ 0	$ 355	$ 2
2	28	0	158	0	186	0
Subtotal	323	2	218	0	541	2
3	0	0	45	0	45	0
4	0	0	0	0	0	0
5	0	0	0	0	0	0
6	0	0	0	0	0	0
Subtotal	0	0	45	0	45	0
Total	$ 323	$ 2	$ 263	$ 0	$ 586	$ 2

	December 31, 2009					
	Single Name		First to Default Basket		Total	
NAIC Designation(1)	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
	(in millions)					
1	$ 323	$ 3	$ 140	$ 0	$ 463	$ 3
2	28	0	303	(3)	331	(3)
Subtotal	351	3	443	(3)	794	0
3	0	0	132	(2)	132	(2)
4	0	0	0	0	0	0
5	0	0	50	(1)	50	(1)
6	0	0	0	0	0	0
Subtotal	0	0	182	(3)	182	(3)

Total	$ 351	$ 3	$ 625	$ (6)	$ 976	$ (3)

(1) First-to-default credit swap baskets, which may include credits of varying qualities, are grouped above based on the lowest credit in the basket. However, such basket swaps may entail greater credit risk than the rating level of the lowest credit.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	September 30, 2010		December 31, 2009	
Industry	**Notional**	**Fair Value**	**Notional**	**Fair Value**
		(in millions)		
Corporate Securities:				
Manufacturing	$ 40	$ 0	$ 45	$ 0
Utilities	0	0	5	0
Finance	0	0	0	0
Services	28	0	31	0
Energy	20	0	20	0
Transportation	25	0	30	0
Retail and Wholesale	20	0	30	0
Other	190	2	190	3
First to Default Baskets(1)	263	0	625	(6)
Total Credit Derivatives	$ 586	$ 2	$ 976	$ (3)

(1) Credit default baskets may include various industry categories.

The Company entered into a credit derivative that will require the Company to make certain payments in the event of deterioration in the value of the surplus notes issued by a subsidiary of Prudential Insurance. The notional of this credit derivative is $500 million and the fair value as of September 30, 2010 and December 31, 2009 was a liability of $47 million and $22 million, respectively. No collateral was pledged in either period.

The Company holds certain externally-managed investments in the European market which contain embedded derivatives whose fair value are primarily driven by changes in credit spreads. These investments are medium term notes that are collateralized by investment portfolios primarily consisting of investment grade European fixed income securities, including corporate bonds and asset-backed securities, and derivatives, as well as varying degrees of leverage. The notes have a stated coupon and provide a return based on the performance of the underlying portfolios and the level of leverage. The Company invests in these notes to earn a coupon through maturity, consistent with its investment purpose for other debt securities. The notes are accounted for under U.S. GAAP as available for sale fixed maturity securities with bifurcated embedded derivatives (total return swaps). Changes in the value of the fixed maturity securities are reported in Equity under the heading Accumulated Other Comprehensive Income (Loss) and changes in the market value of the embedded total return swaps are included in current period earnings in Realized investment gains (losses), net. The Company s maximum exposure to loss from these investments was $750 million and $723 million at September 30, 2010 and December 31, 2009, respectively.

In addition to writing credit protection, the Company has purchased credit protection using credit derivatives in order to hedge specific credit exposures in the Company s investment portfolio. As of September 30, 2010 and December 31, 2009, the Company had $2.031 billion and $2.313 billion of outstanding notional amounts, respectively, reported at fair value as an asset of $24 million and an asset of $174 million, respectively.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Asset management fees and other income				
Interest Rate	$ (6)	$ (18)	$ (10)	$ (21)
Commodity	9	8	44	37
Currency	11	24	39	44
Equity	1	0	7	4
Total asset management fees and other income	$ 15	$ 14	$ 80	$ 64

Credit Risk

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

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

Under fair value measurements, the Company incorporates the market s perception of its own and the counterparty s non-performance risk in determining the fair value of the portion of its OTC derivative assets and

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liabilities that are uncollateralized. Credit spreads are applied to the derivative fair values on a net basis by counterparty. To reflect the Company s own credit spread a proxy based on relevant debt spreads is applied to OTC derivative net liability positions. Similarly, the Company s counterparty s credit spread is applied to OTC derivative net asset positions.

Certain of the Company s derivative agreements with some of its counterparties contain credit-risk related triggers. If the Company s credit rating were to fall below a certain level, the counterparties to the derivative instruments could request termination at the then fair value of the derivative or demand immediate full collateralization on derivative instruments in net liability positions. If a downgrade occurred and the derivative positions were terminated, the Company anticipates it would be able to replace the derivative positions with other counterparties in the normal course of business. The aggregate fair value of all derivative instruments with credit-risk-related contingent features that are in a net liability position were $398 million as of September 30, 2010. In the normal course of business the Company has posted collateral related to these instruments of $265 million as of September 30, 2010. If the credit-risk-related contingent features underlying these agreements had been triggered on September 30, 2010, the Company estimates that it would be required to post a maximum of $133 million of additional collateral to its counterparties.

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

Commitments and Guarantees

Commercial Mortgage Loan Commitments

	As of September 30, 2010 (in millions)	
Total outstanding mortgage loan commitments	$	2,257
Portion of commitment where prearrangement to sell to investor exists	$	1,283

In connection with the Company s commercial mortgage operations, it originates commercial mortgage loans. Commitments for loans that will be held for sale are recognized as derivatives and recorded at fair value. In certain of these transactions, the Company prearranges that it will sell the loan to an investor, including to governmental sponsored entities as discussed below, after the Company funds the loan.

Commitments to Purchase Investments (excluding Commercial Mortgage Loans)

	As of September 30, 2010 (in millions)	
Expected to be funded from the general account and other operations outside the separate accounts	$	4,398
Expected to be funded from separate accounts	$	2,333
Portion of separate account commitments with recourse to Prudential Insurance	$	1,203

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Guarantees of Investee Debt

	As of September 30, 2010 (in millions)
Total guarantees of debt issued by entities in which the separate accounts have invested	$ 2,216
Amount of above guarantee that is limited to separate account assets	$ 2,144
Accrued liability associated with guarantee	$ 0

A number of guarantees provided by the Company relate to real estate investments held in its separate accounts, in which entities that the separate account has invested in have borrowed funds, and the Company has guaranteed their obligations. The Company provides these guarantees to assist these entities in obtaining financing. The Company s maximum potential exposure under these guarantees is mostly limited to the assets of the separate account. The exposure that is not limited to the separate account assets relates to guarantees limited to fraud, criminal activity or other bad acts. These guarantees generally expire at various times over the next fifteen years. At September 30, 2010, the Company s assessment is that it is unlikely payments will be required. Any payments that may become required under these guarantees would either first be reduced by proceeds received by the creditor on a sale of the underlying collateral, or would provide rights to obtain the underlying collateral.

Guarantee of Retail Development Project Costs

	As of September 30, 2010 (in millions)
Guarantee of development costs and interest servicing on retail development project	$ 241
Accrued liability associated with guarantee	$ 0

The Company has provided a guarantee to a syndication of lenders in connection with a retail development project in Singapore that is 50% co-owned by the Company and an unconsolidated real estate fund managed by the Company. The principal provisions in the guarantee require that the loan-to-value ratio of the retail development project be maintained at 60% or lower, based on an external appraisal. A loan-to-value ratio in excess of 60% would require the Company and its co-owner to jointly and severally pay down the loan balance to the 60% level. The loan-to-value ratio, based on a December 2009 appraisal plus additional costs to the development in 2010, is 52.3%. Other obligations under the guarantee include guaranteeing the interest-servicing on the loan on a proportionate basis and undertaking to complete the project and fund all development costs, including cost overruns. The Company s exposure under the guarantee assumes the co-owner honors its joint guarantee. On October 20, 2010, the Company entered into a contract to sell the majority of its ownership interest in the project. The sale is expected to be completed during 2011, and is conditional on the completion of the development and on obtaining refinancing on the property upon maturity of the current loan. The Company s obligations under the guarantee to the existing lenders will expire upon refinancing of the current loan.

Indemnification of Securities Lending Transactions

	As of September 30, 2010 (in millions)	
Indemnification provided to mutual fund and separate account clients for securities lending	$	11,128
Fair value of related collateral associated with above indemnifications	$	11,458
Accrued liability associated with guarantee	$	0

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Credit Derivatives Written

	As of September 30, 2010 (in millions)	
Credit derivatives written maximum amount at risk	$	586
Liability associated with guarantee, carried at fair value	$	2

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

Guarantees of Asset Values

	As of September 30, 2010 (in millions)	
Guaranteed value of third parties assets	$	18,234
Fair value of collateral supporting these assets	$	19,014
Liability associated with guarantee, carried at fair value	$	2

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

Guarantees of Credit Enhancements

	As of September 30, 2010 (in millions)
Guarantees of credit enhancements of debt instruments associated with commercial real estate assets	$ 222
Fair value of properties and associated tax credits that secure the guarantee	$ 261
Accrued liability associated with guarantee	$ 0

The Company arranges for credit enhancements of certain debt instruments that provide financing primarily for affordable multi-family real estate assets, including certain tax-exempt bond financings. The credit enhancements provide assurances to the debt holders as to the timely payment of amounts due under the debt

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

instruments. The remaining contractual maturities for these guarantees are up to fifteen years. The Company s obligations to reimburse required credit enhancement payments are secured by mortgages on the related real estate. The Company receives certain ongoing fees for providing these enhancement arrangements and anticipates the extinguishment of its obligation under these enhancements prior to maturity through the aggregation and transfer of its positions to a substitute enhancement provider.

Indemnification of Serviced Mortgage Loans

	As of September 30, 2010 (in millions)
Maximum exposure under indemnification agreements for mortgage loans serviced by the Company	$ 1,070
First-loss exposure portion of above	$ 346
Accrued liability associated with guarantees	$ 27

As part of the commercial mortgage activities of the Company s Asset Management segment, the Company provides commercial mortgage origination, underwriting and servicing for certain government sponsored entities, such as Fannie Mae and Freddie Mac. The Company has agreed to indemnify the government sponsored entities for a portion of the credit risk associated with certain of the mortgages it services through a delegated authority arrangement. Under these arrangements, the Company originates multi-family mortgages for sale to the government sponsored entities based on underwriting standards they specify, and make payments to them for a specified percentage share of losses they incur on certain loans serviced by the Company. The Company s percentage share of losses incurred generally varies from 2% to 20% of the loan balance, and is typically based on a first-loss exposure for a stated percentage of the loan balance, plus a shared exposure with the government sponsored entity for any losses in excess of the stated first-loss percentage, subject to a contractually specified maximum percentage. The Company services $8,383 million of mortgages subject to these loss-sharing arrangements as of September 30, 2010, all of which are collateralized by first priority liens on the underlying multi-family residential properties. As of September 30, 2010, these mortgages had an average debt service coverage ratio of 1.76 times and an average loan-to-value ratio of 73%. The Company s total share of losses related to indemnifications that were settled was $2 million and $0 million, for the nine months ended September 30, 2010 and 2009, respectively.

Contingent Consideration

	As of September 30, 2010 (in millions)
Maximum potential contingent consideration associated with acquisitions	$ 115

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

Other Guarantees

	As of September 30, 2010 (in millions)	
Other guarantees where amount can be determined	$	131
Accrued liability for other guarantees and indemnifications	$	8

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

Contingent Liabilities

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

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

Litigation and Regulatory Matters

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

Individual Life and Group Insurance

In April 2010, a purported state-wide class action, *Garcia v. The Prudential Insurance Company of America*, was filed in the Second Judicial District Court, Washoe County, Nevada. The complaint was brought on behalf of Nevada beneficiaries of life insurance policies sold by the Company for which, unless the beneficiaries elected another settlement method, death benefits were placed in retained asset accounts, which earn interest and are subject to withdrawal in whole or in part at any time by the beneficiaries. The complaint alleges that by failing to disclose material information about the accounts, the Company wrongfully delayed payment and improperly retained undisclosed profits, and seeks damages, injunctive relief, attorneys fees and prejudgment and post-judgment interest. In June 2010, the Company filed a motion to dismiss the complaint. As

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previously reported, in December 2009, a separate purported nationwide class action raising substantially similar allegations, *Garcia v. Prudential Insurance Company of America*, filed by the same plaintiff in the United States District Court for the District of New Jersey, was dismissed. The time for appeal in the New Jersey *Garcia* case has expired. In July 2010, a purported nationwide class action that makes allegations similar to those in the *Garcia* actions relating to retained asset accounts of beneficiaries of a group life insurance contract owned by the United States Department of Veterans Affairs (VA Contract) that covers the lives of members and veterans of the U.S. armed forces, *Lucey et al. v. Prudential Insurance Company of America*, was filed in the United States District Court for the District of Massachusetts. In October 2010, the Company filed a motion to dismiss the complaint. In October 2010, a second purported nationwide class action brought on behalf of beneficiaries of the VA Contract, *Phillips v. Prudential Insurance Company of America and Prudential Financial, Inc.*, was filed in the United States District Court for the Southern District of California, challenging the use of retained asset accounts to settle death benefit claims, asserting violations of federal and state law, breach of contract and fraud and seeking compensatory and treble damages and equitable relief. In October 2010, the *Phillips* matter was voluntarily dismissed but it is expected that the complaint will be refiled in another jurisdiction. In September 2010, *Huffman v. The Prudential Insurance Company*, a purported nationwide class action brought on behalf of beneficiaries of group life insurance contracts owned by ERISA-governed employee welfare benefit plans was filed in the United States District Court for the Eastern District of Pennsylvania, alleging that using retained asset accounts in employee welfare benefit plans to settle death benefit claims violates ERISA and seeking injunctive relief and disgorgement of profits. In July 2010, the Company, along with other life insurance industry participants, received a formal request for information from the State of New York Attorney General s Office in connection with its investigation into industry practices relating to the use of retained asset accounts. In August 2010, the Company received a similar request for information from the State of Connecticut Attorney General s Office. The Company is cooperating with these investigations. The Company has also been contacted by state insurance regulators and other governmental entities, including the U.S. Department of Veterans Affairs and Congressional committees regarding retained asset accounts. These matters may result in additional investigations, information requests, claims, hearings, litigation and adverse publicity.

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

From November 2002 to March 2005, eleven separate complaints were filed against the Company and the law firm of Leeds Morelli & Brown in New Jersey state court. The cases were consolidated for pre-trial proceedings in New Jersey Superior Court, Essex County and captioned *Lederman v. Prudential Financial, Inc., et al.* The complaints allege that an alternative dispute resolution agreement entered into among Prudential Insurance, over 350 claimants who are current and former Prudential Insurance employees, and Leeds Morelli & Brown (the law firm representing the claimants) was illegal and that Prudential Insurance conspired with Leeds Morelli & Brown to commit fraud, malpractice, breach of contract, and violate racketeering laws by advancing

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legal fees to the law firm with the purpose of limiting Prudential s liability to the claimants. In 2004, the Superior Court sealed these lawsuits and compelled them to arbitration. In May 2006, the Appellate Division reversed the trial court s decisions, held that the cases were improperly sealed, and should be heard in court rather than arbitrated. In March 2007, the court granted plaintiffs motion to amend the complaint to add over 200 additional plaintiffs and a claim under the New Jersey discrimination law but denied without prejudice plaintiffs motion for a joint trial on liability issues. In June 2007, Prudential Financial and Prudential Insurance moved to dismiss the complaint. In November 2007, the court granted the motion, in part, and dismissed the commercial bribery and conspiracy to commit malpractice claims, and denied the motion with respect to other claims. In January 2008, plaintiffs filed a demand pursuant to New Jersey law stating that they were seeking damages in the amount of $6.5 billion. In February 2010, the New Jersey Supreme Court assigned the cases for centralized case management to the Superior Court, Bergen County. The Company is participating in court-ordered mediation.

The Company, along with a number of other insurance companies, received formal requests for information from the State of New York Attorney General s Office (NYAG), the Securities and Exchange Commission (SEC), the Connecticut Attorney General s Office, the Massachusetts Office of the Attorney General, the Department of Labor, the United States Attorney for the Southern District of California, the District Attorney of the County of San Diego, and various state insurance departments relating to payments to insurance intermediaries and certain other practices that may be viewed as anti-competitive. In December 2006, Prudential Insurance reached a resolution of the NYAG investigation. Under the terms of the settlement, Prudential Insurance paid a $2.5 million penalty and established a $16.5 million fund for policyholders, adopted business reforms and agreed, among other things, to continue to cooperate with the NYAG in any litigation, ongoing investigations or other proceedings. Prudential Insurance also settled the litigation brought by the California Department of Insurance and agreed to business reforms and disclosures as to group insurance contracts insuring customers or residents in California and to pay certain costs of investigation. In April 2008, Prudential Insurance reached a settlement of proceedings relating to payments to insurance intermediaries and certain other practices with the District Attorneys of San Diego, Los Angeles and Alameda counties. Pursuant to this settlement, Prudential Insurance paid $350,000 in penalties and costs. These matters are also the subject of litigation brought by private plaintiffs, including purported class actions that have been consolidated in the multidistrict litigation in the United States District Court for the District of New Jersey, *In re Employee Benefit Insurance Brokerage Antitrust Litigation*. In August and September 2007, the court dismissed the antitrust and RICO claims. In January and February 2008, the court dismissed the ERISA claims with prejudice and the state law claims without prejudice. Plaintiffs appealed the dismissal of the antitrust and RICO claims to the United States Court of Appeals for the Third Circuit. In August 2010, the Third Circuit Court of Appeals affirmed the dismissal of the federal antitrust and RICO claims and remanded the state law claims for further proceedings. In September 2010, the district court entered final judgment dismissing all remaining federal claims with prejudice and the state law claims without prejudice.

Retirement Solutions and Investment Management

In October 2007, Prudential Retirement Insurance and Annuity Co. (PRIAC) filed an action in the United States District Court for the Southern District of New York, *Prudential Retirement Insurance & Annuity Co. v. State Street Global Advisors,* in PRIAC s fiduciary capacity and on behalf of certain defined benefit and defined contribution plan clients of PRIAC, against an unaffiliated asset manager, State Street Global Advisors (SSgA) and SSgA s affiliate, State Street Bank and Trust Company (State Street). This action seeks, among other relief, restitution of certain losses attributable to certain investment funds sold by SSgA as to which PRIAC believes SSgA employed investment strategies and practices that were misrepresented by SSgA and failed to exercise the standard of care of a prudent investment manager. PRIAC also intends to vigorously pursue any

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other available remedies against SSgA and State Street in respect of this matter. Given the unusual circumstances surrounding the management of these SSgA funds and in order to protect the interests of the affected plans and their participants while PRIAC pursues these remedies, PRIAC implemented a process under which affected plan clients that authorized PRIAC to proceed on their behalf have received payments from funds provided by PRIAC for the losses referred to above. The Company s consolidated financial statements, and the results of the Retirement segment included in the Company s U.S. Retirement Solutions and Investment Management Division, for the year ended December 31, 2007 include a pre-tax charge of $82 million, reflecting these payments to plan clients and certain related costs. In September 2008, the United States District Court for the Southern District of New York denied the State Street defendants motion to dismiss claims for damages and other relief under Section 502(a)(2) of ERISA, but dismissed the claims for equitable relief under Section 502(a)(3) of ERISA. In October 2008, defendants answered the complaint and asserted counterclaims for contribution and indemnification, defamation and violations of Massachusetts unfair and deceptive trade practices law. In February 2010, State Street reached a settlement with the SEC over charges that it misled investors about their exposure to subprime investments, resulting in significant investor losses in mid-2007. Under the settlement, State Street agreed to pay approximately $313 million in disgorgement, pre-judgment interest, penalty and compensation into a Fair Fund that will be distributed to injured investors. Consequently, State Street agreed to pay PRIAC, for deposit into its separate accounts, approximately $52.5 million within 14 days of the entry of a final judgment by the United States District Court for the District of Massachusetts. By the terms of the settlement, State Street s payment to PRIAC does not resolve any claims PRIAC has against State Street or SSgA in connection with the losses in the investment funds SSgA managed, and the penalty component of State Street s SEC settlement cannot be used to offset or reduce compensatory damages in the action against State Street and SSgA. In February 2010, the United States District Court for the District of Massachusetts entered final judgment and, in March 2010, in compliance with the court order, State Street paid PRIAC approximately $52.5 million, the penalty portion of which (approximately $8.4 million) was subsequently distributed to affected PRIAC clients. In June 2010, PRIAC moved for partial summary judgment on State Street s counterclaims. At the same time, State Street moved for summary judgment on PRIAC s complaint.

In June 2009, special bankruptcy counsel for Lehman Brothers Holdings Inc. (LBHI), Lehman Brothers Special Financing (LBSF) and certain of their affiliates made a demand of Prudential Global Funding LLC (PGF), a subsidiary of the Company, for the return of a portion of the $550 million in collateral delivered by LBSF to PGF pursuant to swap agreements and a cross margining and netting agreement between PGF, LBSF and Lehman Brothers Finance S.A. a/k/a Lehman Brothers Finance AG (Lehman Switzerland), a Swiss affiliate that is subject to insolvency proceedings in the United States and Switzerland. LBSF claims that PGF wrongfully applied the collateral to Lehman Switzerland s obligations in violation of the automatic stay in LBSF s bankruptcy case, which is jointly administered under *In re Lehman Brothers Holdings Inc*. in the United States Bankruptcy Court in the Southern District of New York (the Lehman Chapter 11 Cases). In August 2009, PGF filed a declaratory judgment action in the same court against LBSF, Lehman Switzerland and LBHI (as guarantor of LBSF and Lehman Switzerland under the swap agreements) seeking an order that (a) PGF had an effective lien on the collateral that secured the obligations of both LBSF ($197 million) and Lehman Switzerland ($488 million) and properly foreclosed on the collateral leaving PGF with an unsecured $135 million claim against LBSF (and LBHI as guarantor) or, in the alternative, (b) PGF was entitled, under the Bankruptcy Code, to set off amounts owed by Lehman Switzerland against the collateral and the automatic stay was inapplicable. The declaratory judgment action is captioned *Prudential Global Funding LLC v. Lehman Brothers Holdings Inc., et al*. In addition, PGF filed timely claims against LBSF and LBHI in the Lehman Chapter 11 Cases for any amounts due under the swap agreements, depending on the results of the declaratory judgment action. In October 2009, LBSF and LBHI answered in the declaratory judgment action and asserted counterclaims that PGF breached the swap agreement, seeking a declaratory judgment that PGF had a perfected lien on only $178 million of the collateral that could be applied only to amounts owed by LBSF and no right of

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set off against Lehman Switzerland s obligations, as well as the return of collateral in the amount of $372 million plus interest and the disallowance of PGF s claims against LBSF and LBHI. LBSF and LBHI also asserted cross- claims against Lehman Switzerland seeking return of the collateral. In December 2009, PGF filed a motion for judgment on the pleadings to resolve the matter in its favor. In February 2010, LBSF and LBHI cross-moved for judgment on the pleadings.

Other Matters

Mutual Fund Market Timing Practices

In August 2006, Prudential Equity Group, LLC (PEG), a wholly owned subsidiary of the Company, reached a resolution of the previously disclosed regulatory and criminal investigations into deceptive market related activities involving PEG s former Prudential Securities operations. The settlements relate to conduct that generally occurred between 1999 and 2003 involving certain former Prudential Securities brokers in Boston and certain other branch offices in the U.S., their supervisors, and other members of the Prudential Securities control structure with responsibilities that related to the market timing activities, including certain former members of Prudential Securities senior management. The Prudential Securities operations were contributed to a joint venture with Wachovia Corporation in July 2003, but PEG retained liability for the market timing related activities. In connection with the resolution of the investigations, PEG entered into separate settlements with each of the United States Attorney for the District of Massachusetts (USAO), the Secretary of the Commonwealth of Massachusetts, Securities Division, SEC, the National Association of Securities Dealers, the New York Stock Exchange, the New Jersey Bureau of Securities and the NYAG. These settlements resolve the investigations by the above named authorities into these matters as to all Prudential entities without further regulatory proceedings or filing of charges so long as the terms of the settlement are followed and provided, in the case of the settlement agreement reached with the USAO, that the USAO has reserved the right to prosecute PEG if there is a material breach by PEG of that agreement during its five year term and in certain other specified events. Under the terms of the settlements, PEG paid $270 million into a Fair Fund administered by the SEC to compensate those harmed by the market timing activities. In addition, $330 million was paid in fines and penalties. Pursuant to the settlements, PEG retained, at PEG s ongoing cost and expense, the services of an Independent Distribution Consultant acceptable to certain of the authorities to develop a proposed distribution plan for the distribution of Fair Fund amounts according to a methodology developed in consultation with and acceptable to certain of the authorities. The plan has been accepted and distribution of the Fair Fund has begun. In addition, as part of the settlements, PEG agreed, among other things, to continue to cooperate with the above named authorities in any litigation, ongoing investigations or other proceedings relating to or arising from their investigations into these matters. In connection with the settlements, the Company agreed with the USAO, among other things, to cooperate with the USAO and to maintain and periodically report on the effectiveness of its compliance procedures. The settlement documents include findings and admissions that may adversely affect existing litigation or cause additional litigation and result in adverse publicity and other potentially adverse impacts to the Company s businesses.

In addition to the regulatory proceedings described above that were settled in 2006, in October 2004, the Company and Prudential Securities were named as defendants in several class actions brought on behalf of purchasers and holders of shares in a number of mutual fund complexes. The actions are consolidated as part of a multi-district proceeding, *In re: Mutual Fund Investment Litigation,* pending in the United States District Court for the District of Maryland. The complaints allege that the purchasers and holders were harmed by dilution of the funds values and excessive fees, caused by market timing and late trading, and seek unspecified damages. In August 2005, the Company was dismissed from several of the actions, without prejudice to repleading the state claims, but remains a defendant in other actions in the consolidated proceeding. In July 2006, in one of the consolidated mutual fund actions, *Saunders v. Putnam American Government Income Fund, et al.,* the United

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

States District Court for the District of Maryland granted plaintiffs leave to refile their federal securities law claims against Prudential Securities. In August 2006, the second amended complaint was filed alleging federal securities law claims on behalf of a purported nationwide class of mutual fund investors seeking compensatory and punitive damages in unspecified amounts. In June 2008, the Company was dismissed with prejudice from the remaining actions consolidated in *In re: Mutual Fund Investment Litigation* other than *Saunders v. Putnam American Government Income Fund, et al.* In May 2010, in *Saunders,* plaintiffs moved for preliminary approval of the class settlements with all defendants, including Prudential Securities, and for certification of a settlement class. In October 2010, the Court approved the class settlements with all defendants.

Commencing in 2003, the Company received formal requests for information from the SEC and NYAG relating to market timing in variable annuities by certain American Skandia entities. In connection with these investigations, with the approval of Skandia, an offer was made by American Skandia to the SEC and NYAG, to settle these matters by paying restitution and a civil penalty. In April 2009, AST Investment Services, Inc., formerly named American Skandia Investment Services, Inc. (ASISI), reached a resolution of these investigations by the SEC and NYAG into market timing related misconduct involving certain variable annuities. The settlements relate to conduct that generally occurred between January 1998 and September 2003. The Company acquired ASISI from Skandia in May 2003. Subsequent to the acquisition, the Company implemented controls, procedures and measures designed to protect customers from the types of activities involved in these investigations. These settlements resolve the investigations by the above named authorities into these matters, subject to the settlement terms. Under the terms of the settlements, ASISI paid a total of $34 million in disgorgement and an additional $34 million as a civil money penalty into a Fair Fund administered by the SEC to compensate those harmed by the market timing related activities. Pursuant to the settlements, ASISI has retained, at its ongoing cost and expense, the services of an Independent Distribution Consultant acceptable to the Staff of the SEC to develop a proposed distribution plan for the distribution of Fair Fund amounts according to a methodology developed in consultation with and acceptable to the Staff. As part of these settlements, ASISI hired an independent third party, which has conducted a compliance review and issued a report of its findings and recommendations to ASISI s Board of Directors, the Audit Committee of the Advanced Series Trust Board of Trustees and the Staff of the SEC. In addition, ASISI has agreed, among other things, to continue to cooperate with the SEC and NYAG in any litigation, ongoing investigations or other proceedings relating to or arising from their investigations into these matters. Under the terms of the purchase agreement pursuant to which the Company acquired ASISI from Skandia, the Company was indemnified for the settlements. In August 2010, the SEC approved the plan of distribution.

Corporate

In April 2009, the Company s Board of Directors (the Board) received a letter demanding that the Board take action to recover allegedly improperly paid compensation to certain current and former employees and executive officers of the Company since at least 2005. The demand is made by a Prudential Financial stockholder, Service Employees International Union Pension Plans Master Trust (SEIU), and is one of many that SEIU has sent to large corporations. SEIU claims that the Company must bring an action, under theories of unjust enrichment and corporate waste, to recoup incentive compensation that was based on allegedly flawed economic metrics. SEIU also seeks rescission of exercised stock options because the options were based on mistaken facts concerning the fair value of the Company s stock. The letter states that between 2005 and 2008 the Company paid cash and equity compensation of approximately $165 million to its senior executives and authorized senior executives to exercise stock options worth approximately $66 million. The letter also demands that the Board enjoin any further approved, but unpaid, compensation payments, overhaul the Company s compensation structure, and allow stockholders an advisory vote on the Compensation Committee s report in the Company s annual proxy statement. SEIU reserves the right to bring a derivative action should the Board decline

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

to act. In May 2009, the Board formed a Special Evaluation Committee, comprised of independent directors, and authorized the Committee to hire outside advisors and experts to assist in its evaluation of the demand letter. The Committee engaged counsel that reviewed the matter. In June 2010, the investigation was concluded. The investigation determined that the allegations are unfounded and no further action is necessary.

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

Securities Underwriting

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

Other

In October 2006, a class action lawsuit, *Bouder v. Prudential Financial, Inc. and Prudential Insurance Company of America*, was filed in the United States District Court for the District of New Jersey, claiming that Prudential Insurance failed to pay overtime to insurance agents who were registered representatives in violation

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

of federal and Pennsylvania law, and that improper deductions were made from these agents wages in violation of state law. The complaint seeks back overtime pay and statutory damages, recovery of improper deductions, interest, and attorneys fees. In March 2008, the court conditionally certified a nationwide class. In March 2008, a purported nationwide class action lawsuit was filed in the United States District Court for the Southern District of California, *Wang v. Prudential Financial, Inc. and Prudential Insurance,* on behalf of agents who sold the Company s financial products. The complaint alleges claims that the Company failed to pay overtime and provide other benefits in violation of California and federal law and seeks compensatory and punitive damages in unspecified amounts. In September 2008, *Wang* was transferred to the United States District Court for the District of New Jersey and consolidated with the *Bouder* matter. In January 2009, an amended complaint was filed in the consolidated matter which adds wage claims based on the laws of thirteen additional states. In March 2009, a second amended complaint was filed which dropped the breach of contract claims. The Company moved to dismiss certain of the state claims in the consolidated complaint. In December 2009, certain of the state claims were dismissed. In February 2010, Prudential moved to decertify the federal wage and hour class conditionally certified in March 2008, and moved for summary judgment as to the federal wage and hour claims of the named plaintiffs. In July 2010, plaintiffs filed a motion for class certification on the state law claims. In August 2010, the district court granted Prudential s motion for summary judgment, dismissing the federal claims.

Summary

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

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Supplemental Combining Statements of Financial Position

September 30, 2010 and December 31, 2009 (in millions)

	September 30, 2010			December 31, 2009		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
ASSETS						
Fixed maturities, available for sale, at fair value	$ 151,227	$ 45,962	$ 197,189	$ 132,694	$ 42,531	$ 175,225
Fixed maturities, held to maturity, at amortized cost	5,233	0	5,233	5,120	0	5,120
Trading account assets supporting insurance liabilities, at fair value	17,750	0	17,750	16,020	0	16,020
Other trading account assets, at fair value	5,512	164	5,676	2,866	167	3,033
Equity securities, available for sale, at fair value	4,021	3,251	7,272	3,810	3,085	6,895
Commercial mortgage and other loans	23,466	8,458	31,924	23,021	8,363	31,384
Policy loans	5,147	5,397	10,544	4,728	5,418	10,146
Other long-term investments	4,572	1,558	6,130	4,359	1,545	5,904
Short-term investments	4,646	1,031	5,677	5,487	1,338	6,825
Total investments	221,574	65,821	287,395	198,105	62,447	260,552
Cash and cash equivalents	11,019	954	11,973	12,451	713	13,164
Accrued investment income	1,721	695	2,416	1,668	654	2,322
Deferred policy acquisition costs	14,291	763	15,054	13,751	827	14,578
Other assets	15,155	468	15,623	15,222	291	15,513
Separate account assets	194,463	0	194,463	174,074	0	174,074
TOTAL ASSETS	$ 458,223	$ 68,701	$ 526,924	$ 415,271	$ 64,932	$ 480,203
LIABILITIES AND EQUITY						
LIABILITIES						
Future policy benefits	$ 82,063	$ 51,597	$ 133,660	$ 73,931	$ 51,776	$ 125,707
Policyholders account balances	99,753	5,545	105,298	96,078	5,588	101,666
Policyholders dividends	264	4,120	4,384	328	926	1,254
Securities sold under agreements to repurchase	2,628	3,306	5,934	2,985	3,048	6,033
Cash collateral for loaned securities	1,831	634	2,465	2,323	840	3,163
Income taxes	7,438	(380)	7,058	4,665	(651)	4,014
Short-term debt	2,572	0	2,572	3,122	0	3,122
Long-term debt	20,587	1,750	22,337	19,287	1,750	21,037
Other liabilities	14,095	590	14,685	13,790	614	14,404
Separate account liabilities	194,463	0	194,463	174,074	0	174,074
Total liabilities	425,694	67,162	492,856	390,583	63,891	454,474
COMMITMENTS AND CONTINGENT LIABILITIES						
EQUITY						
Accumulated other comprehensive income (loss)	4,589	140	4,729	(574)	131	(443)
Other attributed equity	27,418	1,399	28,817	24,728	910	25,638

Total attributed equity	32,007	1,539	33,546	24,154	1,041	25,195
Noncontrolling interests	522	0	522	534	0	534
Total equity	32,529	1,539	34,068	24,688	1,041	25,729
TOTAL LIABILITIES AND EQUITY	$ 458,223	$ 68,701	$ 526,924	$ 415,271	$ 64,932	$ 480,203

See Notes to Unaudited Interim Supplemental Combining Financial Information

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Supplemental Combining Statements of Operations

Three Months Ended September 30, 2010 and 2009 (in millions)

	Three Months Ended September 30,					
	2010			2009		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
REVENUES						
Premiums	$ 3,970	$ 684	$ 4,654	$ 3,362	$ 738	$ 4,100
Policy charges and fee income	761	0	761	613	0	613
Net investment income	2,205	813	3,018	2,053	801	2,854
Asset management fees and other income	1,470	30	1,500	1,384	36	1,420
Realized investment gains (losses), net:						
Other-than-temporary impairments on fixed maturity securities	(311)	(124)	(435)	(316)	(82)	(398)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	233	112	345	49	(11)	38
Other realized investment gains (losses), net	42	77	119	(150)	66	(84)
Total realized investment gains (losses), net	(36)	65	29	(417)	(27)	(444)
Total revenues	8,370	1,592	9,962	6,995	1,548	8,543
BENEFITS AND EXPENSES						
Policyholders benefits	3,727	811	4,538	3,086	839	3,925
Interest credited to policyholders account balances	1,139	35	1,174	1,281	36	1,317
Dividends to policyholders	32	480	512	27	539	566
General and administrative expenses	1,846	152	1,998	1,737	150	1,887
Total benefits and expenses	6,744	1,478	8,222	6,131	1,564	7,695
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,626	114	1,740	864	(16)	848
Income tax expense (benefit)	482	38	520	(145)	(8)	(153)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	1,144	76	1,220	1,009	(8)	1,001
Equity in earnings of operating joint ventures, net of taxes	14	0	14	31	0	31
INCOME (LOSS) FROM CONTINUING OPERATIONS	1,158	76	1,234	1,040	(8)	1,032
Income from discontinued operations, net of taxes	7	1	8	0	0	0

NET INCOME (LOSS)	1,165	77	1,242	1,040	(8)	1,032
Less: Loss attributable to noncontrolling interests	(2)	0	(2)	(50)	0	(50)
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$ 1,167	$ 77	$ 1,244	$ 1,090	$ (8)	$ 1,082

See Notes to Unaudited Interim Supplemental Combining Financial Information

PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Supplemental Combining Statements of Operations

Nine Months Ended September 30, 2010 and 2009 (in millions)

	Nine Months Ended September 30,					
	2010			2009		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
REVENUES						
Premiums	$ 11,309	$ 2,191	$ 13,500	$ 9,943	$ 2,378	$ 12,321
Policy charges and fee income	2,436	0	2,436	2,052	0	2,052
Net investment income	6,387	2,419	8,806	6,168	2,366	8,534
Asset management fees and other income	3,330	32	3,362	3,529	88	3,617
Realized investment gains (losses), net:						
Other-than-temporary impairments on fixed maturity securities	(1,452)	(746)	(2,198)	(2,264)	(1,233)	(3,497)
Other-than-temporary impairments on fixed maturity securities transferred to Other Comprehensive Income	1,035	680	1,715	1,246	787	2,033
Other realized investment gains (losses), net	1,861	826	2,687	(240)	(873)	(1,113)
Total realized investment gains (losses), net	1,444	760	2,204	(1,258)	(1,319)	(2,577)
Total revenues	24,906	5,402	30,308	20,434	3,513	23,947
BENEFITS AND EXPENSES						
Policyholders benefits	11,096	2,572	13,668	9,409	2,743	12,152
Interest credited to policyholders account balances	3,535	105	3,640	3,479	106	3,585
Dividends to policyholders	85	1,462	1,547	47	795	842
General and administrative expenses	6,683	486	7,169	6,086	441	6,527
Total benefits and expenses	21,399	4,625	26,024	19,021	4,085	23,106
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	3,507	777	4,284	1,413	(572)	841
Income tax expense (benefit)	1,045	261	1,306	(110)	(208)	(318)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE EQUITY IN EARNINGS OF OPERATING JOINT VENTURES	2,462	516	2,978	1,523	(364)	1,159
Equity in earnings of operating joint ventures, net of taxes	33	0	33	30	0	30
INCOME (LOSS) FROM CONTINUING OPERATIONS	2,495	516	3,011	1,553	(364)	1,189
Income from discontinued operations, net of taxes	5	1	6	26	0	26
NET INCOME (LOSS)	2,500	517	3,017	1,579	(364)	1,215

Less: Loss attributable to noncontrolling interests		(1)		0		(1)		(44)		0		(44)
NET INCOME (LOSS) ATTRIBUTABLE TO PRUDENTIAL FINANCIAL, INC.	$	2,501	$	517	$	3,018	$	1,623	$	(364)	$	1,259

See Notes to Unaudited Interim Supplemental Combining Financial Information

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Supplemental Combining Financial Information

1. BASIS OF PRESENTATION

The supplemental combining financial information presents the consolidated financial position and results of operations for Prudential Financial, Inc. and its subsidiaries (together, the Company), separately reporting the Financial Services Businesses and the Closed Block Business. The Financial Services Businesses and the Closed Block Business are both fully integrated operations of the Company and are not separate legal entities. The supplemental combining financial information presents the results of the Financial Services Businesses and the Closed Block Business as if they were separate reporting entities and should be read in conjunction with the Consolidated Financial Statements.

The Company has outstanding two classes of common stock. The Common Stock reflects the performance of the Financial Services Businesses and the Class B Stock reflects the performance of the Closed Block Business.

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

2. ALLOCATION OF RESULTS

This supplemental combining financial information reflects the assets, liabilities, revenues and expenses directly attributable to the Financial Services Businesses and the Closed Block Business, as well as allocations deemed reasonable by management in order to fairly present the financial position and results of operations of the Financial Services Businesses and the Closed Block Business on a stand-alone basis. While management considers the allocations utilized to be reasonable, management has the discretion to make operational and financial decisions that may affect the allocation methods and resulting assets, liabilities, revenues and expenses of each business. In addition, management has limited discretion over accounting policies and the appropriate allocation of earnings between the two businesses. The Company is subject to agreements which provide that, in most instances, the Company may not change the allocation methodology or accounting policies for the allocation of earnings between the Financial Services Businesses and Closed Block Business without the prior consent of the Class B Stock holders or IHC debt bond insurer.

General corporate overhead not directly attributable to a specific business that has been incurred in connection with the generation of the businesses revenues is generally allocated between the Financial Services Businesses and the Closed Block Business based on the general and

administrative expenses of each business as a percentage of the total general and administrative expenses for all businesses.

Prudential Holdings, LLC, a wholly owned subsidiary of Prudential Financial, Inc., has outstanding senior secured notes (the IHC debt), of which net proceeds of $1.66 billion were allocated to the Financial Services Businesses concurrent with the demutualization on December 18, 2001. The IHC debt is serviced by the cash flows of the Closed Block Business, and the results of the Closed Block Business reflect interest expense associated with the IHC debt.

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Supplemental Combining Financial Information (Continued)

Income taxes are allocated between the Financial Services Businesses and the Closed Block Business as if they were separate companies based on the taxable income or losses and other tax characterizations of each business. If a business generates benefits, such as net operating losses, it is entitled to record such tax benefits to the extent they are expected to be utilized on a consolidated basis.

Holders of Common Stock have no interest in a separate legal entity representing the Financial Services Businesses; holders of the Class B Stock have no interest in a separate legal entity representing the Closed Block Business; and holders of each class of common stock are subject to all of the risks associated with an investment in the Company.

In the event of a liquidation, dissolution or winding-up of the Company, holders of Common Stock and holders of Class B Stock would be entitled to receive a proportionate share of the net assets of the Company that remain after paying all liabilities and the liquidation preferences of any preferred stock.

The results of the Financial Services Businesses are subject to certain risks pertaining to the Closed Block. These include any expenses and liabilities from litigation affecting the Closed Block policies as well as the consequences of certain potential adverse tax determinations. In connection with the sale of the Class B Stock and IHC debt, the cost of indemnifying the investors with respect to certain matters will be borne by the Financial Services Businesses.

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

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) addresses the consolidated financial condition of Prudential Financial as of September 30, 2010, compared with December 31, 2009, and its consolidated results of operations for the three and nine months ended September 30, 2010 and 2009. You should read the following analysis of our consolidated financial condition and results of operations in conjunction with the MD&A and the audited Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009, as well as the statements under Forward-Looking Statements, Risk Factors and the Unaudited Interim Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

Overview

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

Financial Services Businesses

Our Financial Services Businesses consist of three operating divisions, which together encompass seven segments, and our Corporate and Other operations. The U.S. Retirement Solutions and Investment Management division consists of our Individual Annuities, Retirement and Asset Management segments. The U.S. Individual Life and Group Insurance division consists of our Individual Life and Group Insurance segments. The International Insurance and Investments division consists of our International Insurance and International Investments segments. Our Corporate and Other operations include our real estate and relocation services business, as well as corporate items and initiatives that are not allocated to business segments. Corporate and Other operations also include businesses that have been or will be divested 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 6 to the Unaudited Interim Consolidated Financial Statements for more information on the Closed Block. At the time of demutualization, we determined the amount of Closed Block assets so that the Closed Block assets initially had a lower book value than the Closed Block liabilities. We expect that the Closed Block assets will generate sufficient cash flow, together with anticipated revenues from the Closed Block policies, over the life of the Closed Block to fund payments of all expenses, taxes, and policyholder benefits to be

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

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

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

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

Executive Summary

Prudential Financial, a financial services leader with approximately $750 billion of assets under management as of September 30, 2010, has operations in the United States, Asia, Europe and Latin America. Through our subsidiaries and affiliates, we offer a wide array of financial products and services, including life insurance, annuities, retirement-related services, mutual funds, investment management, and real estate services. We offer these products and services to individual and institutional customers through one of the largest distribution networks in the financial services industry.

On September 30, 2010, Prudential Financial agreed to acquire from American International Group, Inc. (AIG) all of the issued and outstanding shares of capital stock of AIG Star Life Insurance Co., Ltd., AIG Edison Life Insurance Company, AIG Financial Assurance Japan K.K., and AIG Edison Service Co., Ltd. for a total purchase price of $4.8 billion. The total purchase price of $4.8 billion is comprised of approximately $4.2 billion in cash and $0.6 billion in assumed third party debt, substantially all of which is expected to be repaid with excess capital of the acquired entities. The acquisition, which is expected to close in the first quarter of 2011, is subject to the receipt of regulatory approvals and the satisfaction of other customary closing conditions. See Results of Operations for Financial Services Businesses by Segment International Insurance and Investments Division International Insurance and Liquidity and Capital Resources for more information on the acquired entities and our financing plans for the acquisition.

On July 21, 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act was signed into law and could result in the imposition of new capital, liquidity and other requirements on Prudential Financial and its subsidiaries. See Risk Factors for information regarding the potential effects of the Dodd-Frank Act on the Company.

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Our financial condition and results of operations for the nine months ended September 30, 2010 reflect the following:

- Net income of our Financial Services Businesses attributable to Prudential Financial, Inc. for the three and nine months ended September 30, 2010 was $1.167 billion and $2.501 billion, respectively.

- Pre-tax net realized investment gains and related charges and adjustments of the Financial Services Businesses for the three and nine months ended September 30, 2010 were $278 million and $840 million, respectively, primarily reflecting net realized investment gains from general account portfolio activities, including hedging programs, and foreign currency exchange rates, partially offset by other-than-temporary impairments of fixed maturity securities.

- Net unrealized gains on general account fixed maturity investments of the Financial Services Businesses amounted to $9.615 billion as of September 30, 2010, compared to net unrealized gains of $998 million as of December 31, 2009. Gross unrealized gains increased from $5.387 billion as of December 31, 2009 to $12.796 billion as of September 30, 2010 and gross unrealized losses decreased from $4.389 billion to $3.181 billion for the same period primarily due to a decrease in risk-free rates. Net unrealized gains on general account fixed maturity investments of the Closed Block Business amounted to $3.170 billion as of September 30, 2010, compared to net unrealized gains of $7 million as of December 31, 2009.

- Individual Annuity gross sales in the third quarter of 2010 were $5.4 billion, compared to $5.9 billion in the prior year quarter, and net sales in the third quarter of 2010 were $3.7 billion, compared to $4.4 billion in the prior year quarter.

- Full Service Retirement gross deposits and sales were $5.3 billion and net additions were $2.1 billion in the third quarter of 2010, compared to gross deposits and sales of $4.8 billion and net additions of $1.5 billion in the prior year quarter.

- Asset Management total institutional and retail net flows were $7.0 billion in the third quarter of 2010, compared to $7.7 billion in the prior year quarter.

- International Insurance constant dollar basis annualized new business premiums were $449 million in the third quarter of 2010, an increase from $357 million in the prior year quarter.

- As of September 30, 2010, Prudential Financial, the parent holding company, had cash and short-term investments of $5.426 billion.

Results of Operations

We analyze performance of the segments and Corporate and Other operations of the Financial Services Businesses using a measure called adjusted operating income. See Consolidated Results of Operations Segment Measures for a discussion of adjusted operating income, including the change we made to this measure in the third quarter of 2010, and its use as a measure of segment operating performance.

Shown below are the contributions of each segment and Corporate and Other operations to our adjusted operating income for the three and nine months ended September 30, 2010 and 2009 and a reconciliation of adjusted operating income of our segments and Corporate and Other operations to income from continuing operations before income taxes and equity in earnings of operating joint ventures.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Adjusted operating income before income taxes for segments of the Financial Services Businesses:				
Individual Annuities	$ 588	$ 315	$ 701	$ 560
Retirement	119	117	425	362
Asset Management	148	29	355	61
Individual Life	190	243	369	421
Group Insurance	61	64	146	262
International Insurance	530	500	1,473	1,390
International Investments	1	7	32	25
Corporate and Other	(260)	(203)	(640)	(575)
Reconciling Items:				
Realized investment gains (losses), net, and related adjustments	160	(406)	1,481	(1,101)
Charges related to realized investment gains (losses), net	118	29	(641)	(561)
Investment gains on trading account assets supporting insurance liabilities, net	388	694	719	1,525
Change in experience-rated contractholder liabilities due to asset value changes	(367)	(458)	(831)	(850)
Divested businesses	(32)	25	(46)	(31)
Equity in earnings of operating joint ventures	(18)	(92)	(36)	(75)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	1,626	864	3,507	1,413
Income (loss) from continuing operations before income taxes for Closed Block Business	114	(16)	777	(572)
Consolidated income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 1,740	$ 848	$ 4,284	$ 841

Results for the three and nine months ended September 30, 2010 presented above reflect the following:

Individual Annuities segment results for the third quarter of 2010 increased in comparison to the third quarter of 2009 primarily reflecting a net favorable variance of $201 million resulting from the impact of 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. This net favorable variance largely reflects the more favorable impact of an annual review and update of the assumptions used in estimating the profitability of the business. Excluding these items, results increased $72 million from the year ago quarter, reflecting higher fee income from higher variable annuity account values driven by positive net flows and market appreciation over the past twelve months. Individual Annuities segment results for the first nine months of 2010 increased in comparison to the first nine months of 2009 primarily reflecting higher fee income from higher variable annuity account values driven by positive net flows and market appreciation. Partially offsetting the favorable variance was a net unfavorable variance of $98 million resulting from the impact of 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. This net unfavorable variance largely reflects less favorable equity market performance for the first nine months of 2010 compared to the first nine months of 2009 partially offset by a more favorable impact in the first nine months of 2010 of an annual review and update of the assumptions used in estimating the profitability of the business.

Retirement segment results for the third quarter and first nine months of 2010 increased in comparison to the prior year periods primarily driven by higher asset based fees due to an increase in average full service fee-based retirement account values, resulting from market appreciation and net additions over the past twelve months and improved net investment spread results. Partially offsetting these favorable variances was a more unfavorable 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.

Asset Management segment results improved in both the third quarter and first nine months of 2010, in comparison to the prior year periods, primarily reflecting improved results from the segment s commercial mortgage activities, increased asset management fees, and improved investment results from the segment s proprietary investing activities.

Individual Life segment results for the third quarter and first nine months of 2010 decreased in comparison to the prior year periods. Results for all periods benefited from lower amortization of net deferred policy acquisitions costs and unearned revenue reserves reflecting updates of our actuarial assumptions based on annual reviews. The 2010 benefit was $52 million, which included a decrease in reserves for the guaranteed minimum death benefit feature in certain contracts, compared to a benefit of $55 million in 2009. Results in 2009 also benefited $30 million from compensation received based on multi-year profitability of third-party products we distribute, compared to a benefit of less than $1 million in 2010. Absent the impact of these items, results for the third quarter of 2010 decreased $20 million, compared to the third quarter of 2009, driven by less favorable mortality experience, net of reinsurance. Absent the impact of the annual reviews and compensation received based on multi-year profitability of third-party products we distribute, as discussed above, results for the first nine months of 2010 decreased $19 million from the first nine months of 2009 primarily due to an increase in amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves, largely reflecting the impact of equity markets on separate account fund performance in the respective periods.

Group Insurance segment results declined in both the third quarter of 2010 and the first nine months of 2010, compared to the prior year periods. Results in 2010 reflect the net benefit from reserve refinements in both the group life and group disability businesses, including the impact from annual reviews, compared to a net benefit of zero in 2009. Excluding this item, the decline in adjusted operating income in both periods reflected less favorable claims experience primarily in our group life business, as well as the lapse of certain group life business and repricing of other business up for renewal with favorable claims experience in the prior periods, reflecting the competitive market. In addition, operating expenses increased, including higher costs to support disability operations and expansion into the group dental market.

International Insurance segment results for the third quarter of 2010 increased in comparison to the third quarter of 2009. Results from the segment s Life Planner operations increased in comparison to the third quarter of 2009 reflecting the continued growth of our Japanese Life Planner operation partially offset by a $6 million less favorable benefit in the current quarter associated with our annual review of the estimated gross profits used to amortize deferred policy acquisition costs, as well as the impact of a $6 million charge in the 2010 period from refinements due to implementation of a new policy valuation system. Results from the segment s Gibraltar Life operation improved in the third quarter of 2010, reflecting the continued growth of our multi-currency fixed annuity products, higher contributions from non-coupon investments and a favorable impact from foreign currency exchange rates, including the impact of our currency hedging programs. Offsetting these favorable variances was a decline in earnings from the acquired former business of Yamato Life reflecting approximately $15 million of earnings

recognized in the third quarter of 2009 largely related to initial surrenders of policies following the restructuring of the business. International Insurance segment results for the first nine months of 2010 increased in comparison to the first nine months of 2009. Results from the segment s Life Planner operations increased in the 2010 period, reflecting the continued growth of our Japanese Life Planner operation, offset by the comparative impact of a net charge in 2010 and a benefit to results in 2009 related to the new policy valuation system discussed above, as well as a lower benefit in the current quarter associated with our annual review of the estimated gross profits used to amortize deferred policy acquisition costs. Results from the segment s Gibraltar Life operation improved for the first nine months of 2010, primarily from growth in our multi-currency fixed annuities products.

International Investments segment results decreased in the third quarter of 2010, in comparison to the third quarter of 2009, reflecting a write-down of software technology in the third quarter of 2010, partially offset by more favorable sales and trading results in the segment s global commodities group. Results for the first nine months of 2010 increased in comparison to the first nine months of 2009, reflecting more favorable results in the segment s asset management businesses and the segment s global commodities group.

Corporate and Other operations resulted in an increased loss for both the third quarter and first nine months of 2010 compared to the prior year periods primarily due to increased interest expense, net of investment income, reflecting a greater level of capital debt, as well as less favorable results from corporate hedging activities and a higher level of expenses in other corporate activities, partially offset by improved results in our real estate and relocation services business.

Realized investment gains (losses), net, and related charges and adjustments for the Financial Services Businesses in the third quarter of 2010 and first nine months of 2010 amounted to a gain of $278 million and $840 million, respectively, primarily reflecting net realized investment gains from general account portfolio activities, including hedging programs, and foreign currency exchange rates, partially offset by other-than-temporary impairments of fixed maturity securities.

Income (loss) from continuing operations before income taxes in the Closed Block Business increased $130 million in the third quarter of 2010 compared to the third quarter of 2009, and increased $1.349 billion for the first nine months of 2010 compared to the first nine months of 2009. Results reflect net realized investment gains in 2010, compared to losses in 2009. Results in the first nine months of 2009 benefited from a reduction in the cumulative earnings policyholder dividend obligation.

Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

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

Management believes the accounting policies relating to the following areas are most dependent on the application of estimates and assumptions:

Deferred policy acquisition costs;

Goodwill;

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

- Policyholder liabilities;
- Pension and other postretirement benefits;
- Taxes on income; and
- Reserves for contingencies, including reserves for losses in connection with unresolved legal matters.

A discussion of each of the critical accounting estimates may be found in our Annual Report on Form 10-K for the year ended December 31, 2009, under Management s Discussion and Analysis of Financial Condition and Results of Operations Accounting Policies & Pronouncements Application of Critical Accounting Estimates.

Adoption of New Accounting Pronouncements

See Note 2 to our Unaudited Interim Consolidated Financial Statements for a discussion of newly adopted accounting pronouncements, including the adoption of updated authoritative guidance for fair value disclosures, consolidation of variable interest entities, and accounting for the transfer of financial assets.

Future Adoption of New Accounting Pronouncements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions, except per share amounts)			
Financial Services Businesses by segment:				
Individual Annuities	$ 645	$ 146	$ 1,186	$ 545
Retirement	222	392	799	376
Asset Management	172	(6)	407	5
Total U.S. Retirement Solutions and Investment Management Division	1,039	532	2,392	926
Individual Life	184	286	261	496
Group Insurance	74	54	197	63
Total U.S. Individual Life and Group Insurance Division	258	340	458	559
International Insurance	757	339	1,465	524
International Investments	(15)	(10)	(3)	(12)
Total International Insurance and Investments Division	742	329	1,462	512
Corporate and Other	(413)	(337)	(805)	(584)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	1,626	864	3,507	1,413
Income tax expense (benefit)	482	(145)	1,045	(110)
Income from continuing operations before equity in earnings of operating joint ventures for Financial Services Businesses	1,144	1,009	2,462	1,523
Equity in earnings of operating joint ventures, net of taxes	14	31	33	30
Income from continuing operations for Financial Services Businesses	1,158	1,040	2,495	1,553
Income from discontinued operations, net of taxes	7	0	5	26
Net income Financial Services Businesses	1,165	1,040	2,500	1,579
Less: Loss attributable to noncontrolling interests	(2)	(50)	(1)	(44)
Net income of Financial Services Businesses attributable to Prudential Financial, Inc.	$ 1,167	$ 1,090	$ 2,501	$ 1,623
Basic income from continuing operations attributable to Prudential Financial, Inc. per share Common Stock	$ 2.48	$ 2.36	$ 5.37	$ 3.68
Diluted income from continuing operations attributable to Prudential Financial, Inc. per share Common Stock	$ 2.45	$ 2.35	$ 5.30	$ 3.66
Basic net income attributable to Prudential Financial, Inc. per share Common Stock	$ 2.50	$ 2.36	$ 5.38	$ 3.74
Diluted net income attributable to Prudential Financial, Inc. per share Common Stock	$ 2.46	$ 2.35	$ 5.31	$ 3.72
Closed Block Business:				
Income (loss) from continuing operations before income taxes for Closed Block Business	$ 114	$ (16)	$ 777	$ (572)
Income tax expense (benefit)	38	(8)	261	(208)
Income (loss) from continuing operations for Closed Block Business	76	(8)	516	(364)

Income from discontinued operations, net of taxes	1	0	1	0
Net income (loss) Closed Block Business	77	(8)	517	(364)
Less: Income attributable to noncontrolling interests	0	0	0	0
Net income (loss) of Closed Block Business attributable to Prudential Financial, Inc.	$ 77	$ (8)	$ 517	$ (364)
Basic and diluted income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Class B Stock	$ 33.50	$ (10.00)	$ 243.50	$ (199.00)
Basic and diluted net income (loss) attributable to Prudential Financial, Inc. per share Class B Stock	$ 34.00	$ (10.00)	$ 244.00	$ (199.00)
Consolidated:				
Net income attributable to Prudential Financial, Inc.	$ 1,244	$ 1,082	$ 3,018	$ 1,259

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Results of Operations Financial Services Businesses

2010 to 2009 Three Month Comparison. Income from continuing operations for the Financial Services Businesses increased $118 million, from $1,040 million in the third quarter of 2009 to $1,158 million in the third quarter of 2010. Results in the third quarter of 2010 include net pre-tax gains associated with our general account portfolio and hedging programs, as compared to net pre-tax losses in the third quarter of 2009, reflecting the impact of financial market conditions in each period. In addition, results in the third quarter of 2010 include a net increase in premiums and policy charges and fee income, largely offset by an increase in policyholders benefits, including changes in reserves, reflecting business growth, as well as the impact of currency fluctuations, in our International Insurance operations and higher life-contingent structured settlement and single premium annuity sales in our retirement business. The increase in income also reflects a favorable variance in the adjustments to the deferred policy acquisition and other costs and the reserves for guaranteed minimum death and income benefit features of our variable annuity products. Partially offsetting these items was a decrease in other income, partially offset by a decrease in benefits and expenses, due to changes in value of recorded assets and liabilities that are expected to ultimately accrue to contractholders. On a diluted per share basis, income from continuing operations attributable to the Financial Services Businesses for the three months ended September 30, 2010 of $2.45 per share of Common Stock increased from $2.35 per share of Common Stock for the three months ended September 30, 2009. We analyze the operating performance of the segments included in the Financial Services Businesses using adjusted operating income as described in Segment Measures, below. For a discussion of our segment results on this basis, see Results of Operations for Financial Services Businesses by Segment, below. In addition, for a discussion of the realized investment gains (losses), net attributable to the Financial Services Businesses, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses, below. For additional information regarding investment income, excluding realized investment gains (losses) see Realized Investment Gains and Losses and General Account Investments General Account Investments, below.

The direct equity adjustment increased income from continuing operations available to holders of the Common Stock for earnings per share purposes by $9 million for the three months ended September 30, 2010, compared to $12 million for the three months ended September 30, 2009. As described more fully in Note 8 to the Unaudited Interim Consolidated Financial Statements, the direct equity adjustment modifies earnings available to holders of the Common Stock and the Class B Stock for earnings per share purposes. The holders of the Common Stock will benefit from the direct equity adjustment as long as reported administrative expenses of the Closed Block Business are less than the cash flows for administrative expenses determined by the policy servicing fee arrangement that is based upon insurance and policies in force and statutory cash premiums. Generally, as statutory cash premiums and policies in force in the Closed Block Business decline, we expect the benefit to the Common Stock holders from the direct equity adjustment to decline accordingly. If the reported administrative expenses of the Closed Block Business exceed the cash flows for administrative expenses determined by the policy servicing fee arrangement, the direct equity adjustment will reduce income available to holders of the Common Stock for earnings per share purposes.

2010 to 2009 Nine Month Comparison. Income from continuing operations for the Financial Services Businesses increased $942 million, from $1,553 million in the first nine months of 2009 to $2,495 million in the first nine months of 2010. Results in the first nine months of 2010 include net pre-tax gains associated with our general account portfolio and hedging programs, as compared to net pre-tax losses in the first nine months of 2009, reflecting the impact of financial market conditions in each period. In addition, results in the current period include a net increase in premiums and policy charges and fee income, largely offset by an increase in policyholders benefits, including changes in reserves, reflecting business growth, as well as the impact of currency fluctuations, in our International Insurance operations and higher life-contingent structured settlement and single premium annuity sales in our retirement business. Results in the first nine months of 2010 and 2009 also reflect increases in other income and benefits and expenses due to changes in value of recorded assets and liabilities that are expected to ultimately accrue to contractholders. On a diluted per share basis, income from continuing operations attributable to the Financial Services Businesses for the nine months ended September 30, 2010 of $5.30 per share of Common Stock increased from $3.66 per share of Common Stock for the nine months

ended September 30, 2009. 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 $29 million for the nine months ended September 30, 2010, compared to $34 million for the nine months ended September 30, 2009.

Results of Operations Closed Block Business

2010 to 2009 Three Month Comparison. Income (loss) from continuing operations for the Closed Block Business for the three months ended September 30, 2010, was income of $76 million, or $33.50 per share of Class B Stock, compared to a loss of $8 million, or $(10.00) per share of Class B Stock, for the three months ended September 30, 2009. The direct equity adjustment decreased income from continuing operations available to the Class B Stock holders for earnings per share purposes by $9 million for the three months ended September 30, 2010, compared to $12 million for the three months ended September 30, 2009. For a discussion of the results of operations for the Closed Block Business, see Results of Operations of Closed Block Business, below.

2010 to 2009 Nine Month Comparison. Income (loss) from continuing operations for the Closed Block Business for the nine months ended September 30, 2010, was income of $516 million, or $243.50 per share of Class B Stock, compared to a loss of $364 million, or $(199.00) per share of Class B Stock, for the nine months ended September 30, 2009. The direct equity adjustment decreased income from continuing operations available to the Class B Stock holders for earnings per share purposes by $29 million for the nine months ended September 30, 2010, compared to $34 million for the nine months ended September 30, 2009. 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 11 to the Unaudited Interim Consolidated Financial Statements for further information on the presentation of segment results and our definition of adjusted operating income.

Effective with the third quarter of 2010, we amended our definition of adjusted operating income as it relates to certain variable annuity contracts and defined contribution accounts that contain optional guaranteed living benefit features. Changes in the fair value of these optional living benefit features, which are accounted for as embedded derivatives, are primarily driven by changes in the policyholders account balance and changes in the capital market and policyholder behavior assumptions used in the valuation of the embedded derivatives, including equity market returns, interest rates, market volatility, benefit utilization, contract lapses, contractholder mortality, and withdrawal rates. The changes in fair value of the embedded derivative liabilities also reflect an increase or decrease in the market-perceived risk of our non-performance. We hedge or limit our exposure to certain risks associated with these living benefit features through a combination of product design elements and externally purchased hedging instruments. In addition, beginning in the second quarter of 2009, we expanded our hedging program to include a portion of the market exposure related to the overall capital position of the variable annuity business. During the second quarter of 2010, the equity component of the capital hedge within the variable annuity business was replaced with a new capital hedge program that more broadly addressed equity market exposure of the statutory capital within the Financial Services Businesses as a whole. Changes in the value of the embedded derivatives inclusive of the market-perceived risk of our non-performance, and the related hedge positions are reported in Realized investment gains (losses), net. Historically, adjusted operating income included the changes in fair value of these embedded derivatives and related hedge positions, in the period they occurred, and also included the related impact to amortization of deferred policy acquisition and other costs.

Adjusted operating income under the amended definition excludes any amounts related to changes in the market value of the embedded derivatives and related hedge positions, and the related impact to amortization of deferred policy acquisition and other costs. Adjusted operating income for all periods presented has been revised to conform to the amended definition. We view adjusted operating income under the amended definition as a more meaningful presentation of our results for purposes of analyzing the operating performance of, and allocating resources to, our business segments, as the amended definition presents results on a basis more consistent with the economics of the businesses. The accounting for these products and associated derivatives under U.S. GAAP has not changed.

Adjusted operating income under the amended definition excludes net gains of $89 million and net losses of $151 million for the three months ended September 30, 2010 and 2009, respectively, and excludes net gains of $522 million and $95 million for the nine months ended September 30, 2010 and 2009, respectively, related to changes in the market value of the embedded derivatives and related hedge positions, and the related impact to amortization of deferred policy acquisition and other costs. Of the $89 million in net gains for the three months ended September 30, 2010, $83 million and $3 million of net gains is reflected within the U.S. GAAP results of the Individual Annuities and Retirement segments, respectively, and net gains of $3 million is reflected within our Corporate and Other operations. Of the $522 million in net gains for the nine months ended September 30, 2010, $516 million and $9 million of net gains is reflected within the U.S. GAAP results of the Individual Annuities and Retirement segments, respectively, and net losses of $3 million is reflected within our Corporate and Other operations.

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Results of Operations for Financial Services Businesses by Segment

U.S. Retirement Solutions and Investment Management Division

Individual Annuities

Operating Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Operating results:				
Revenues	$ 807	$ 653	$ 2,334	$ 1,818
Benefits and expenses	219	338	1,633	1,258
Adjusted operating income	588	315	701	560
Realized investment gains (losses), net, and related adjustments(1)	(98)	(192)	1,098	632
Related charges(1)(2)	155	23	(613)	(647)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 645	$ 146	$ 1,186	$ 545

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

In the third quarter of 2010, we amended our definition of adjusted operating income to exclude the net impact of embedded derivatives related to our living benefit features and related hedge positions as well as market value changes of derivatives used in our capital hedge program. Adjusted operating income for all periods presented has been revised to conform with the amended definition. See Consolidated Results of Operations Segment Measures for additional information. See Net impact of embedded derivatives related to our living benefit features and related hedge positions below for a discussion of the results of these living benefit features and related hedge positions.

Adjusted Operating Income

2010 to 2009 Three Month Comparison. Adjusted operating income increased $273 million, from $315 million in the third quarter of 2009 to $588 million in the third quarter of 2010. The increase in adjusted operating income was driven by decreases in amortization of deferred policy acquisition and other costs and decreases in reserves for guaranteed minimum death and income benefits, primarily driven by the impact of an annual review and update of the assumptions used in estimating the profitability of our business. Results for both periods include the impact of these annual reviews as well as the impacts to the estimated profitability of the business of our quarterly adjustments to reflect current period experience and market performance. These items are discussed in more detail below. Also contributing to the increase in adjusted operating income was an increase in fee income driven by higher average variable annuity asset balances invested in separate accounts. The increase in separate account balances was due to positive net flows, net market appreciation, and net transfers of balances from the general account to the separate accounts over the past twelve months. The transfer of balances from the general account relates to both transfers from a customer elected dollar cost averaging program of approximately $2.0 billion and approximately $0.8 billion of net transfers primarily from the

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automatic rebalancing element, also referred to as an asset transfer feature, in some of our optional living benefit features, which, as part of the overall product design, and as a result of market improvements, transferred balances out of the fixed rate option in our general account to the separate accounts from October 1, 2009 through September 30, 2010.

As shown in the following table, adjusted operating income for the third quarter of 2010 included $412 million of benefits related to adjustments to our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs and to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products, compared to $211 million of benefits included in the third quarter of 2009, resulting in a $201 million favorable variance.

	Three Months Ended September 30, 2010			Three Months Ended September 30, 2009		
	Amortization of DAC and Other Costs(1)	Reserves for GMDB / GMIB(2)	Total	Amortization of DAC and Other Costs(1)	Reserves for GMDB / GMIB(2)	Total
			(in millions)			
Quarterly market performance adjustment	$ 64	$ 127	$ 191	$ 80	$ 176	$ 256
Annual review / assumption updates	165	12	177	(30)	(19)	(49)
Quarterly adjustment for current period experience and other updates	16	28	44	(24)	28	4
Total	$ 245	$ 167	$ 412	$ 26	$ 185	$ 211

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

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

The $191 million of benefits in the third quarter of 2010 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. The actual rate of return on annuity account values for the third quarter of 2010 was 8.1% compared to our expected rate of return of 2.1%. The higher than expected market returns increased our estimates of total gross profits and decreased our estimate of future expected claims costs associated with the guaranteed minimum death and income benefit features of our variable annuity products, by establishing a new, higher starting point for the variable annuity account values used in estimating those items for future periods. The expected rates of return for the third quarter of 2010, for some 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 $256 million benefit in the third quarter of 2009 is attributable to a similar impact on gross profits of market value increases in the underlying assets associated with our variable annuity products, reflecting financial market conditions during that period. The actual rate of return on annuity account values for the third quarter of 2009 was 10.6% compared to our previously expected rate of return of 2.4%.

As discussed and shown in the table above, results for both periods include the impact of the annual reviews of the assumptions used in the reserves 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 third quarter of 2010 included $177 million of benefits from these annual reviews, primarily related to reductions in lapse rate assumptions and more favorable assumptions relating to fee

income. The third quarter of 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 in the third quarter of 2009 were benefits related to the impact of lower mortality and higher investment spread assumptions.

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. The near-term future projected return across all contract groups is 7.7% per annum as of September 30, 2010. Beginning in the fourth quarter of 2008 and continuing through the third quarter of 2010, the projected near-term future annual rate of return calculated using the reversion to the mean approach for some contract groups was greater than our maximum future rate of return assumption across all asset types for this business. In those cases, we utilize the maximum future rate of return over the four year period, thereby limiting the impact of the reversion to the mean on our estimate of total gross profits. The near-term blended maximum future rate of return, for these impacted contract groups, under the reversion to the mean approach is 9.6% at the end of the third quarter of 2010. Included in the blended maximum future rate are assumptions for returns on various asset classes, including a 5.7% annual weighted average rate of return on fixed income investments and a 13% annual maximum rate of return on equity investments. Further or continued market volatility could result in additional market value changes within our separate account assets and corresponding changes to our gross profits, as well as additional adjustments to the amortization of deferred policy acquisition and other costs, and the costs relating to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products. Given that the estimates of future gross profits are based upon our maximum future rate of return assumption for some contract groups, all else being equal, future rates of return higher than the above mentioned future projected four year return of 7.7%, but less than the maximum future rate of return of 9.6%, may still result in increases in the amortization of deferred policy acquisition and other costs, and the costs relating to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products.

The $44 million benefit in the third quarter of 2010 and the $4 million benefit in the third quarter of 2009 for the quarterly adjustments for current period experience and other updates shown in the table above primarily reflect the impact of differences between actual gross profits for the period and the previously estimated expected gross profits for the period, as well as an update for current and future expected claims costs associated with the guaranteed minimum death and income benefit features of our variable annuity products. To the extent each period s actual experience differs from the previous estimate for that period, the assumed level of total gross profits may change, and a cumulative adjustment to previous periods amortization, also referred to as an experience true-up adjustment, may be required in the current period. This adjustment to previous periods amortization is in addition to the direct impact of actual gross profits on current period amortization and the market performance related adjustment to our estimates of gross profits for future periods. The experience true-up adjustments for deferred policy acquisition and other costs in the third quarter of 2010 reflect a reduction in amortization due to better than expected gross profits, resulting primarily from higher than expected fee income as discussed above. The experience true-up adjustment for the reserves for the guaranteed minimum death and income benefit features of our variable annuity products in the third quarter of 2010 primarily reflects a reserve decrease driven by lower than expected actual contract guarantee claim costs, more favorable lapse experience, and higher than expected fee income. The experience true-up adjustments for deferred policy acquisition and other costs and reserves for the guaranteed minimum death and income benefit features of our variable annuity products in the third quarter of 2009 were essentially offsetting.

2010 to 2009 Nine Month Comparison. Adjusted operating income increased $141 million, from $560 million in the first nine months of 2009 to $701 million in the first nine months of 2010. The increase in adjusted operating income is driven by an increase in fee income, net of higher distribution costs, driven by higher average variable annuity asset balances invested in separate accounts. The increase in average separate account assets was due to positive net flows, net market appreciation, and net transfers of balances from the general

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account to the separate accounts between the third quarter of 2009 and the third quarter of 2010. The transfer of balances from the general account relates to both transfers from a customer elected dollar cost averaging program of approximately $2.0 billion and approximately $0.8 billion of net transfers primarily from the automatic rebalancing element in some of our optional living benefit features, which, as part of the overall product design, and as a result of market improvements, transferred balances out of the fixed rate option in our general account to the separate accounts from October 1, 2009 through September 30, 2010.

Partially offsetting the increase in adjusted operating income was a $98 million unfavorable variance 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. As shown in the following table, adjusted operating income for the first nine months of 2010 included $202 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 $300 million of benefits included in the first nine months of 2009. This variance is discussed in more detail below.

	Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2009		
	Amortization of DAC and Other Costs(1)	Reserves for GMDB / GMIB(2)	Total	Amortization of DAC and Other Costs(1)	Reserves for GMDB / GMIB(2)	Total
			(in millions)			
Quarterly market performance adjustment	$ (10)	$ (16)	$ (26)	$ 38	$ 242	$ 280
Annual review / assumption updates	165	12	177	(30)	(19)	(49)
Quarterly adjustment for current period experience and other updates	23	28	51	48	21	69
Total	$ 178	$ 24	$ 202	$ 56	$ 244	$ 300

(1) Amounts reflect (charges) or benefits for (increases) or decreases, respectively, in the amortization of deferred policy acquisition costs, or DAC, and other costs.
(2) Amounts reflect (charges) or benefits for reserve (increases) or decreases, respectively, related to the guaranteed minimum death and income benefit, or GMDB / GMIB, features of our variable annuity products.

The $26 million of charges for the first nine months of 2010 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. The following table shows the actual quarterly rate of return on variable annuity account values for the first three quarters of 2010 compared to our previously expected quarterly rate of return used in our estimate of total gross profits.

	First Quarter 2010	Second Quarter 2010	Third Quarter 2010
Actual rate of return	3.4%	(5.2)%	8.1%
Expected rate of return	2.0%	1.9%	2.1%

As shown in the table above, overall market returns were relatively flat to expected returns on a blended three quarter basis. However, during the first nine months of 2010 the expected rates of return for some contract groups were based upon our maximum future rate of return assumption under the reversion to the mean approach, thereby limiting the offsetting impact of the reversion to the mean, particularly during the second quarter of 2010 when market returns were negative. The lower than expected returns for these contract groups resulted in a decrease in our estimates of total gross profits and increased our estimate of future expected claims costs associated with the guaranteed minimum death and income benefit features of our variable annuity products. The decrease in our estimate of total gross profits and increase in our estimate of future expected

claims costs results in a higher required rate of amortization and higher required reserve provisions, which are applied to all prior periods. The resulting cumulative adjustment to prior amortization and reserve provisions was a $26 million net charge for the first nine months of 2010.

The $280 million of benefits in the first nine months of 2009 is attributable to a similar but opposite impact on gross profits of market value increases in the underlying assets associated with our variable annuity products, reflecting financial market conditions during the period. Also included within the $38 million decrease in amortization of deferred policy acquisition and other costs is a $73 million increase to amortize the remaining balance of valuation of business acquired, or VOBA, related to the variable annuity contracts acquired from The Allstate Corporation, or Allstate, in the second quarter of 2006. The additional charge was required in the first quarter of 2009, as the declines in estimated future gross profits related to market performance caused the present value of estimated gross profits for these contracts to fall below zero. Since the VOBA balance was completely amortized for these contracts, it cannot be reestablished for market value appreciation in subsequent periods. Excluding this Allstate block of business, market value appreciation in the first nine months of 2009 increased our estimates of total gross profits by establishing a new, higher starting point for the annuity account values used in estimating gross profits for future periods. The increase in our estimate of total gross profits resulted in a lower required rate of amortization, which was applied to all prior periods gross profits.

As discussed and shown in the table above, results for both periods include the impact of the annual reviews of the assumptions used in the reserves 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 first nine months of 2010 included $177 million of benefits from these annual reviews, primarily related to reductions in lapse rate assumptions and more favorable assumptions relating to fee income. The first nine months of 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 for the first nine months of 2009 were benefits related to the impact of lower mortality and higher investment spread assumptions.

The $51 million benefit for the first nine months of 2010 and the $69 million benefit for the first nine months of 2009 for the quarterly adjustments for current period experience and other updates shown in the table above primarily reflect the impact of differences between actual gross profits for the period and the previously estimated expected gross profits for the period, as well as an update for current and future expected claims costs associated with the guaranteed minimum death and income benefit features of our variable annuity products. To the extent each period s actual experience differs from the previous estimate for that period, the assumed level of total gross profits may change, and a cumulative adjustment to previous periods amortization, also referred to as an experience true-up adjustment, may be required in the current period. This adjustment to previous periods amortization is in addition to the direct impact of actual gross profits on current period amortization and the market performance related adjustment to our estimates of gross profits for future periods. The experience true-up adjustments for deferred policy acquisition and other costs for the first nine months of 2010 reflect a reduction in amortization due to better than expected gross profits, resulting primarily from higher than expected fee income. The adjustment for the reserves for the guaranteed minimum death and income benefit features of our variable annuity products in the first nine months of 2010 primarily reflects a reserve decrease driven by lower than expected actual contract guarantee claim costs, more favorable lapse experience, and higher than expected fee income. The experience true-up adjustments for deferred policy acquisition and other costs for the first nine months of 2009 reflect a reduction in amortization due to better than expected gross profits. The adjustment for the reserves for the guaranteed minimum death and income benefit features of our variable annuity products in the first nine months of 2009 primarily reflects higher than expected fee income due to market value increases, partially offset by higher than expected actual contract guarantee claims costs due to lower than expected lapses.

Revenues

2010 to 2009 Three Month Comparison. Revenues, as shown in the table above under Operating Results, increased $154 million, from $653 million in the third quarter of 2009 to $807 million in the third quarter of 2010. Policy charges and fees and asset management fees and other income increased $149 million driven by higher average variable annuity asset balances invested in separate accounts. The increase in average separate account asset balances was due to positive net flows, net market appreciation, and net transfers of balances from the fixed rate option in the general account to the separate accounts over the past twelve months relating to both a customer elected dollar cost averaging program and an automatic rebalancing element in some of our optional living benefit features. Premiums also increased $21 million driven by an increase in annuitizations primarily from contracts with the guaranteed minimum income benefit feature. Partially offsetting these favorable variances was a decrease in net investment income of $16 million, reflecting lower average annuity account values in the general account also resulting from transfers from the fixed rate option in the general account to the separate accounts as discussed above.

2010 to 2009 Nine Month Comparison. Revenues increased $516 million, from $1,818 million in the first nine months of 2009 to $2,334 million in the first nine months of 2010. Policy charges and fees and asset management fees and other income increased $549 million driven by an increase in fee income resulting from higher average variable annuity asset balances invested in separate accounts. The increase in average separate account asset balances was due to positive net flows, net market appreciation, and net transfers of balances from the fixed rate option in the general account to the separate accounts over the past twelve months relating to both a customer elected dollar cost averaging program and an automatic rebalancing element in some of our optional living benefit features. Premiums also increased $68 million driven by an increase in annuitizations primarily from contracts with the guaranteed minimum income benefit feature. Partially offsetting the increase in revenues was a decrease in net investment income of $101 million, reflecting lower average annuity account values in the general account also resulting from transfers from the fixed rate option in the general account to the separate accounts as discussed above.

Benefits and Expenses

2010 to 2009 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, decreased $119 million, from $338 million in the third quarter of 2009 to $219 million in the third quarter of 2010. Absent the net $201 million decrease related to the adjustments to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products and to our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs, benefits and expenses increased $82 million. On this basis, general and administrative expenses, net of capitalization, increased $27 million primarily driven by higher distribution and asset management costs, reflecting higher average variable annuity asset balances invested in separate accounts. Insurance and annuity benefits also increased $18 million driven by an increase in annuitizations primarily from contracts with the guaranteed minimum income benefit feature. Interest expense also increased $14 million driven by higher intercompany borrowings to fund operating costs and new business sales. Also on this basis, the amortization of deferred policy acquisition costs increased $13 million reflecting the impact of higher gross profits used as a basis for amortization driven by higher fee income. Interest credited to policyholders account balances also increased $10 million driven by higher amortization of deferred sales inducements also reflecting the impact of higher gross profits partially offset by lower interest credited due to lower average annuity account values in the fixed rate option of the general account.

2010 to 2009 Nine Month Comparison. Benefits and expenses increased $375 million, from $1,258 million in the first nine months of 2009 to $1,633 million in the first nine months of 2010. Absent the net $98 million increase related to the adjustments to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products and to our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs, benefits and expenses increased $277 million. On this basis, general and administrative expenses, net of capitalization, increased $158 million primarily driven by higher distribution and

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asset management costs, reflecting higher average variable annuity asset balances invested in separate accounts and higher variable annuity sales. The amortization of deferred policy acquisition costs, on this basis, increased $54 million reflecting the impact of higher gross profits used as a basis for amortization driven by higher fee income. Interest expense also increased $37 million driven by higher intercompany borrowings to fund operating costs and new business sales. Also on this basis, insurance and annuity benefits increased $28 million driven by an increase in annuitizations primarily from contracts with the guaranteed minimum income benefit feature. Lower interest credited to policyholders account balances driven by lower average annuity account values in the fixed rate option of the general account was mostly offset by higher amortization of deferred sales inducements, reflecting the impact of higher gross profits primarily from fee income as mentioned above.

Account Values

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Variable Annuities(1):				
Beginning total account value	$ 83,593	$ 65,099	$ 80,519	$ 60,007
Sales	5,368	5,829	15,543	11,315
Surrenders and withdrawals	(1,660)	(1,444)	(5,044)	(4,202)
Net sales	3,708	4,385	10,499	7,113
Benefit Payments	(260)	(239)	(729)	(731)
Net flows	3,448	4,146	9,770	6,382
Change in market value, interest credited and other activity(2)	6,756	6,650	4,260	9,947
Policy charges	(422)	(284)	(1,174)	(725)
Ending total account value(3)	$ 93,375	$ 75,611	$ 93,375	$ 75,611
Fixed Annuities:				
Beginning total account value	$ 3,766	$ 3,221	$ 3,452	$ 3,295
Sales	29	46	91	142
Surrenders and withdrawals	(44)	(49)	(170)	(201)
Net redemptions	(15)	(3)	(79)	(59)
Benefit Payments	(62)	(41)	(199)	(121)
Net flows	(77)	(44)	(278)	(180)
Interest credited and other activity(2)	139	36	655	99
Policy charges	0	0	(1)	(1)
Ending total account value	$ 3,828	$ 3,213	$ 3,828	$ 3,213

(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 $267 million for the nine months ended September 30, 2010 from variable annuity to fixed annuity account values to conform presentation of certain contracts in annuitization status.
(3) As of September 30, 2010, variable annuity account values are invested in equity funds ($49 billion or 52%), bond funds ($26 billion or 28%), market value adjusted or fixed rate options ($10 billion or 11%), and other ($8 billion or 9%).

2010 to 2009 Three Month Comparison. Total account values for fixed and variable annuities amounted to $97.2 billion as of September 30, 2010, representing an increase of $9.8 billion from June 30, 2010 primarily

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driven by increases in the market value of customers variable annuities due to favorable equity markets in the third quarter of 2010 and positive variable annuity net flows. Total account values as of September 30, 2010 increased $18.4 billion from September 30, 2009, primarily due to positive variable annuity net flows and increases in the market value of customers variable annuities due to equity market improvements over the twelve months ended September 30, 2010. Individual variable annuity gross sales continued to be strong in the third quarter of 2010 as sales levels were slightly higher than the second quarter of 2010. Our variable annuity gross sales reflect our product strength, customer value proposition, and our position as the primary provider of living benefit guarantees based on highest daily customer account value as well as the further expansion of our distribution networks. We remain competitively positioned relative to our competitors and expect our living benefit features will provide us an attractive risk and profitability profile, as all of our currently-offered optional living benefit features include the automatic rebalancing element described below. Compared to the third quarter of 2009, individual variable annuity gross sales decreased $461 million as the third quarter of 2009 benefited from increased sales related to certain optional living benefit features that we announced we were discontinuing during the third quarter of 2009. Individual variable annuity surrenders and withdrawals increased by $216 million, from $1,444 million in the third quarter of 2009 to $1,660 million in the third quarter of 2010, reflecting the overall impact of higher account values in the current period due to market appreciation over the past twelve months.

2010 to 2009 Nine Month Comparison. Total account values for fixed and variable annuities amounted to $97.2 billion as of September 30, 2010, representing an increase of $13.2 billion from December 31, 2009. The increase was driven by positive variable annuity net flows and increases in the market value of customers variable annuities due to favorable equity markets for the nine months ended September 30, 2010. Total account values as of September 30, 2010 increased $18.4 billion from September 30, 2009, primarily due to positive variable annuity net flows and increases in the market value of customers variable annuities due to equity market improvements over the twelve months ended September 30, 2010. Individual variable annuity gross sales momentum continued in the first nine months of 2010 as sales increased by $4.2 billion, from $11.3 billion in the first nine months of 2009 to $15.5 billion in the first nine months of 2010. The increase reflects our product strength, customer value proposition, and our position as the primary provider of living benefit guarantees based on highest daily customer account value as well as the further expansion of our distribution networks. Additionally, we have benefited from some of our competitors implementing product modifications to increase pricing and scale back product features due to market disruptions in late 2008 and the first half of 2009. We remain competitively positioned relative to our competitors and expect our living benefit features will provide us an attractive risk and profitability profile, as all of our currently-offered optional living benefit features include the automatic rebalancing element described below. Individual variable annuity surrenders and withdrawals increased by $0.8 billion, from $4.2 billion in the first nine months of 2009 to $5.0 billion in the first nine months of 2010, reflecting the overall impact of higher account values in the current period due to market appreciation over the past twelve months.

Variable Annuity Net Amount at Risk

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

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The automatic rebalancing element, included in the design of certain optional living benefits, transfers assets between the variable investments selected by the annuity contractholder and, depending on the benefit feature, the fixed rate option in the 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 impact of investment performance on contractholders total account value. In general, negative investment performance may result in transfers to either the fixed rate option in the general account or a separate account bond portfolio, and positive investment performance may result 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.

Variable annuity account values with living benefit features were $66.9 billion, $52.5 billion, and $47.5 billion as of September 30, 2010, December 31, 2009, and September 30, 2009, respectively. The following table sets forth the account values of our variable annuities with living benefit features and the net amount at risk of the living benefit features split between those that include an automatic rebalancing element and those that do not, as of the dates indicated.

	September 30, 2010		December 31, 2009		September 30, 2009	
	Account Value	Net Amount at Risk	Account Value	Net Amount at Risk	Account Value	Net Amount at Risk
			(in millions)			
Automatic rebalancing element(1)	$ 49,721	$ 1,473	$ 34,901	$ 1,061	$ 30,116	$ 1,129
No automatic rebalancing element	17,141	2,406	17,570	2,785	17,356	2,895
Total variable annuity account values with living benefit features	$ 66,862	$ 3,879	$ 52,471	$ 3,846	$ 47,472	$ 4,024

(1) As of September 30, 2010, December 31, 2009 and September 30, 2009 asset values that have rebalanced to the general account or a separate account bond portfolio due to the automatic rebalancing element represent 15% or $7.7 billion of the $49.7 billion total account value, 23% or $8.2 billion of the $34.9 billion total account value, and 30% or $9.1 billion of the $30.1 billion total account value, respectively.

The increase in account values which included an automatic rebalancing element from September 30, 2009 and December 31, 2009 to September 30, 2010, reflects sales of our latest product offerings which include this feature, as well as the impact on account values of overall favorable equity markets since the prior periods. As of September 30, 2010, approximately 74% of variable annuity account values with living benefit features included an automatic rebalancing element in the product design, compared to 67% and 63% as of December 31, 2009 and September 30, 2009, respectively.

Favorable market conditions for the twelve months ended September 30, 2010 drove the decrease in total net amount at risk from September 30, 2009 to September 30, 2010. As of September 30, 2010, approximately 38% of the net amount at risk associated with variable annuity account values with living benefit features included an automatic rebalancing element in the product design, compared to 28% as of both December 31, 2009 and September 30, 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 $66.9 billion, $52.5 billion, and $47.5 billion of variable annuity account values with living benefit features as of September 30, 2010, December 31, 2009 and September 30, 2009, respectively, also contain guaranteed

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minimum death benefits. An additional $23.3 billion, $24.4 billion, and $24.3 billion of variable annuity account values, respectively, contain guaranteed minimum death benefits, but no living benefit features. Certain account values with guaranteed minimum death benefits are affected by an automatic rebalancing element because the contractholder selected a living benefit feature which includes an automatic rebalancing element. The following table sets forth the account values of our variable annuities with guaranteed minimum death benefits and the net amount at risk of the guaranteed minimum death benefits split between those that are affected by an automatic rebalancing element and those that are not, as of the dates indicated.

	September 30, 2010		December 31, 2009		September 30, 2009	
	Account Value	Net Amount at Risk	Account Value	Net Amount at Risk	Account Value	Net Amount at Risk
			(in millions)			
Automatic rebalancing element	$ 49,721	$ 672	$ 34,901	$ 800	$ 30,116	$ 863
No automatic rebalancing element	40,455	6,248	41,975	7,798	41,645	8,828
Total variable annuity account values with death benefit features	$ 90,176	$ 6,920	$ 76,876	$ 8,598	$ 71,761	$ 9,691

As of September 30, 2010, approximately 55% of variable annuity account values with guaranteed minimum death benefits were affected by an automatic rebalancing element because the contractholder selected a living benefit feature which includes an automatic rebalancing element as part of the living benefit feature design, compared to 45% and 42% as of December 31, 2009 and September 30, 2009, respectively. As of September 30, 2010, approximately 10% of the net amount at risk associated with variable annuity account values with guaranteed minimum death benefits was affected by an automatic rebalancing element in the product design, compared to 9% as of both December 31, 2009 and September 30, 2009.

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

As mentioned above, in addition to our automatic rebalancing element, we also manage certain risks associated with our variable annuity products through our hedging programs. In our living benefit hedging program, we purchase equity options and futures as well as interest rate derivatives to hedge certain living benefit features accounted for as embedded derivatives against changes in equity markets, interest rates, and market volatility. Historically, our hedging strategy sought to generally match the sensitivities of the embedded derivative liability as defined by GAAP, excluding the impact of the market-perceived risk of our own non-performance, which we believe is generally consistent with how similar risks are valued in the capital markets. In the third quarter of 2010, we revised our hedging strategy as, in the current low interest rate environment, we do not believe the GAAP value of the embedded derivative liability to be an appropriate measure for determining the hedge target. Our new hedge target continues to be grounded in a GAAP/capital markets valuation framework but incorporates modifications to the risk-free return assumption to account for the fact that the underlying customer separate account funds which support these living benefits are invested in risk assets. Consistent with sound risk management practices, we will evaluate hedge levels versus our target given overall capital considerations of the Company. This new strategy will result in differences each period between the change in the value of the embedded derivative liability as defined by GAAP and the change in the value of the hedge positions, potentially increasing volatility in GAAP earnings.

Historically, adjusted operating income included the net impact of both the change in fair value of the embedded derivative liabilities associated with our living benefit features as defined by GAAP and the change in fair value of the related derivative hedge positions, as well as the related impact to the amortization of deferred policy acquisition and other costs. In light of management s decision to change the hedging target, as discussed above, we have amended our definition of adjusted operating income effective with the third quarter of 2010 to

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exclude changes in the fair value of the embedded derivative liabilities and the related derivative hedge positions, as well as the related amortization of deferred policy acquisition and other costs. See Consolidated Results of Operations Segment Measures for additional information.

The following table shows the net impact of changes in the embedded derivative liabilities and related hedge positions, as well as the related amortization of deferred policy acquisition and other costs, for the three and nine months ended September 30, 2010 and 2009 for the Individual Annuities segment. These results are excluded from adjusted operating income.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Decrease/(increase) in the fair value of the embedded derivative liabilities(1)	$ (69)	$ 274	$ (1,922)	$ 2,062
Change in fair value of hedge positions	139	(166)	2,056	(1,761)
Subtotal	70	108	134	301
(Increase) in the fair value of the embedded derivative liabilities due to updates to the assumptions used in the valuation of the liability	(902)	(202)	(902)	(110)
Decrease in the embedded derivative liabilities resulting from the impact of the market-perceived risk of our own non-performance	750	5	1,814	564
Net benefit/(charge) from the mark-to-market of embedded derivatives and related hedge positions(2)	$ (82)	$ (89)	$ 1,046	$ 755
Related benefit/(charge) to amortization of DAC and other costs(3)	$ 187	$ 80	$ (509)	$ (558)
Net benefit/(charge) from the mark-to-market of embedded derivatives and related hedge positions, after the impact of DAC and other costs	$ 105	$ (9)	$ 537	$ 197

(1) Excludes the (increase) in the fair value of the embedded derivative liabilities due to updates to the assumptions used in the valuation of the liability and the impact of the market-perceived risk of our non-performance.
(2) Net benefit/(charge) from the mark-to-market of embedded derivatives and related hedge positions are excluded from adjusted operating income and included in operating results in Realized investment gains (losses), net and related adjustments.
(3) Related benefit/(charge) to amortization of DAC and other costs is excluded from adjusted operating income and included in operating results in Related charges.

2010 to 2009 Three Month Comparison. As shown above, the net impact from the mark-to-market of our embedded derivatives and related hedge positions for both periods includes the impact of updates to the assumptions used in the valuation of the embedded derivative liabilities. The charge of $902 million in the third quarter of 2010 and the charge of $202 million in the third quarter of 2009 both represent increases to the embedded derivative liability primarily driven by reductions in both periods in the expected lapse rate assumption based on actual experience.

Additionally, both periods include an adjustment to the embedded derivative liability to reflect the market s perception of our own risk of non-performance. To reflect the market s perception of our own risk of non-performance, we incorporate an additional spread over LIBOR into the discount rate used in the valuation of the embedded derivative liabilities. The third quarter of 2010 includes a $750 million benefit related to this update primarily resulting from an increase in the fair value of embedded derivative liabilities reflecting an increase in the present value of future expected benefit payments driven by a reduction in the expected lapse rate assumption, partially offset by a decrease in the additional spread over LIBOR, reflecting general credit spread tightening.

Excluding the updates of the assumptions used in the valuation of the embedded derivatives as discussed above, and excluding the related amortization of deferred policy acquisition and other costs, the hedging activities resulted in a $70 million benefit in the third quarter of 2010 and a $108 million benefit in the third quarter of 2009. 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 13 to the Unaudited Interim Consolidated Financial Statements and Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Variable Annuity Optional Living Benefit Features.

In the second quarter of 2009, we began the expansion of our hedging program to include a portion of the market exposure related to the overall capital position of our variable annuity business, including the impact of certain statutory reserve exposures. These capital hedges, which primarily consisted of equity-based total return swaps, as well as interest rate derivatives, were designed to partially offset changes in our capital position resulting from market driven changes in certain living and death benefit features of our variable annuity products. The results of these hedges are not reflected in the table above. During the second quarter of 2010, we removed the equity component of our capital hedge within the Individual Annuities segment by terminating the equity-based total return swaps, as part of a new program to more broadly address the equity market exposure of the statutory capital of our Financial Services Businesses as a whole, under stress scenarios. Since the new program incorporates capital implications across a number of businesses, the results of the equity components of the capital hedge program are reported within Corporate and Other operations. The results of the Individual Annuities segment for the third quarter of 2010 included $22 million of mark-to-market losses on the remaining interest rate derivatives. We continue to assess the composition of the hedging program and the treatment of the remaining interest rate derivatives. The results of the Individual Annuities segment for the third quarter of 2009 included $140 million of mark-to-market losses on these capital hedges driven by favorable market conditions during the quarter which resulted in an increase in our capital position. The results of these capital hedges are included in Realized investment gains (losses), net and related adjustments and have been excluded from adjusted operating income. See Consolidated Results of Operations Segment Measures for additional information.

2010 to 2009 Nine Month Comparison. As shown above, the net impact from the mark-to-market of our embedded derivatives and related hedge positions for both periods includes the impact of updates to the assumptions used in the valuation of the embedded derivative liabilities. The charge of $902 million for the first nine months of 2010 represents an increase to the embedded derivative liability primarily driven by reductions in the expected lapse rate assumption based on actual experience. The charge of $110 million for the first nine months of 2009 represents an increase to the embedded derivative liability primarily driven by reductions in the expected lapse rate assumption based on actual experience partially offset by a decrease in the liability driven by an update of the equity volatility assumption to better match the actual equity indices referenced.

Additionally, both periods include an adjustment to the embedded derivative liability to reflect the market s perception of our own risk of non-performance as discussed above. The first nine months of 2010 includes a $1,814 million benefit related to this update primarily resulting from an increase in the fair value of embedded derivative liabilities reflecting an increase in the present value of future expected benefit payments driven by adverse changes to significant capital market inputs as well as a reduction in the expected lapse rate assumption. The first nine months of 2009 includes a $564 million benefit reflecting a reduction in the fair value of the embedded derivative liability reflecting the impact of this additional spread over LIBOR applied to the discount rate to which we began incorporating into the valuation of the liability in the beginning of 2009 to reflect the market s perception of our own risk of non-performance.

Excluding the updates of assumptions used in the valuation of the embedded derivatives as discussed above, the hedging activities resulted in a $134 million gross benefit for the first nine months of 2010 and a $301 million benefit for the first nine months of 2009. 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 13 to the Unaudited Interim Consolidated Financial Statements and Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Variable Annuity Optional Living Benefit Features.

In the second quarter of 2009, we began the expansion of our hedging program to include a portion of the market exposure related to the overall capital position of our variable annuity business, including the impact of certain statutory reserve exposures. These capital hedges, which primarily consisted of equity-based total return swaps, as well as interest rate derivatives, were designed to partially offset changes in our capital position resulting from market driven changes in certain living and death benefit features of our variable annuity products. The results of these hedges are not reflected in the table above. During the second quarter of 2010, we removed the equity component of our capital hedge within the Individual Annuities segment by terminating the equity-based total return swaps, as part of a new program to more broadly address the equity market exposure of the statutory capital of our Financial Services Businesses as a whole, under stress scenarios. Since the new program incorporates capital implications across a number of new businesses, the results of the equity components of the capital hedge program are reported within Corporate and Other operations. See Liquidity and Capital Resources Liquidity and Capital Resources of Subsidiaries Domestic Insurance Subsidiaries for a further discussion. The results of the Individual Annuities segment for the first nine months of 2010 included $21 million of mark-to-market losses on these capital hedges primarily from the remaining interest rate derivatives. We continue to assess the composition of the hedging program and the treatment of the remaining interest rate derivatives. The results of the Individual Annuities segment for the first nine months of 2009 included $142 million of mark-to-market losses on these capital hedges driven by favorable market conditions during the quarter which resulted in an increase in our capital position. The results of these hedges are included in Realized investment gains (losses), net and related adjustments and have been excluded from adjusted operating income. See Consolidated Results of Operations Segment Measures for additional information.

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Retirement

Operating Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Operating results:				
Revenues	$ 1,376	$ 1,100	$ 3,875	$ 3,525
Benefits and expenses	1,257	983	3,450	3,163
Adjusted operating income	119	117	425	362
Realized investment gains (losses), net, and related adjustments(1)	93	36	503	(670)
Related charges(2)	(11)	3	(17)	9
Investment gains on trading account assets supporting insurance liabilities, net(3)	371	677	753	1,449
Change in experience-rated contractholder liabilities due to asset value changes(4)	(350)	(441)	(865)	(774)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 222	$ 392	$ 799	$ 376

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments. Realized investment gains (losses), net and related adjustments include the net impact of our living benefit features and related hedge positions as described below. 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.

In the third quarter of 2010, we amended our definition of adjusted operating income to exclude the net impact of embedded derivatives related to our living benefit features and related hedge positions as well as market value changes of derivatives used in our capital hedge program. Adjusted operating income for all periods presented has been revised to conform with the amended definition. See Consolidated Results of Operations Segment Measures for additional information.

Adjusted Operating Income

2010 to 2009 Three Month Comparison. Adjusted operating income increased $2 million, from $117 million in the third quarter of 2009 to $119 million in the third quarter of 2010. These results represent the combined results of our full service business and institutional investment products business. 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 the third quarter of 2010 and 2009 included charges of $18 million and $3 million, respectively, from the annual reviews. The quarterly adjustments for current period experience resulted in a $3 million benefit in the third quarter of 2010 compared to a $5 million charge in the third quarter of 2009, 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. Together, these items resulted in a net charge of $15 million in the third quarter of

2010 and a net charge of $8 million in the third quarter of 2009. The net charge of $15 million in the third quarter of 2010 was driven by changes in lapse rate and fee-based profit margin assumptions which both decreased expected future gross profits.

Excluding the items discussed above, adjusted operating income increased $9 million compared to the third quarter of 2009, primarily reflecting higher asset based fee income and improved net investment spread results partially offset by an increase in general and administrative expenses, net of capitalization. Each item is further discussed below.

Higher asset based fees were driven by an increase in average full service fee-based retirement account values and higher investment-only fee-based stable value account values in our institutional investment products business. The increase in average full service fee-based retirement account values was driven by market appreciation and net additions over the past twelve months. Higher investment-only fee-based stable value account values in our institutional investment products business were driven by net additions over the past twelve months.

Improved net investment spread results were primarily driven by higher investment yields in our institutional investment products business including the impact of lower levels of cash and short-term investments in the third quarter of 2010 compared to the third quarter of 2009. Higher levels of cash and short-term investments were maintained in 2009 to provide additional capacity to address short-term liquidity needs during the changing market conditions. Also contributing to the improved net investment spread results was increased income from the impact of lower crediting rates on general account liabilities in our full service business from crediting rate resets in the first quarter of 2010. Our ability to maintain current net spreads in our full service business in future periods is impacted by the levels of interest rates, the pace and extent of changes in interest rates, competitor pricing, and the minimum guaranteed crediting rates on our general account stable value products. Partially offsetting the improvement in net investment spread results was a decrease in net swap settlements from lower notional amounts of these swaps. The notional amounts of these swaps have decreased as lower levels of cash and short term investments and purchases of fixed income securities with durations more closely matched to our liabilities reduced the duration gap between our assets and liabilities. Future net investment spread results could be further impacted if interest rates or the notional amounts of these swaps change. Additionally, the negative impact on net investment spread results from reductions in our base of general account invested assets from scheduled withdrawals of guaranteed investment products in our institutional investment products business was offset by the positive impact of increases in balances in our full service general account stable value products and from net additions in our structured settlement product. Net investment spread results in future periods may be negatively impacted if we are unable to replace scheduled withdrawals of guaranteed investment products with new additions. For further discussion of our sales, see Sales Results and Account Values.

Partially offsetting the increase in adjusted operating income was an increase in general and administrative expenses, net of capitalization, driven by expenses incurred in the third quarter of 2010 related to certain cost reduction initiatives.

2010 to 2009 Nine Month Comparison. Adjusted operating income increased $63 million, from $362 million in the first nine months of 2009 to $425 million in the first nine months of 2010. 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 the first nine months of 2010 and 2009 included charges of $18 million and $3 million, respectively, from the annual reviews. The quarterly adjustments for current period experience resulted in a $6 million benefit in the first nine months of 2010 compared to a $5 million charge in the first nine months of 2009, 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. Together, these items resulted in a net charge of $12 million in the first nine

months of 2010 and a net charge of $8 million in the first nine months of 2009. The net charge of $12 million in the first nine months of 2010 was driven by changes in lapse rate and fee-based profit margin assumptions which both decreased expected future gross profits.

Excluding the items discussed above, adjusted operating income for the first nine months of 2010 increased $67 million compared to the first nine months of 2009, primarily reflecting improved net investment spread results and higher asset based fee income partially offset by an increase in general and administrative expenses, net of capitalization, and a less favorable benefit from reserve refinements. Each item is further discussed below.

Improved net investment spread results were driven by increased net settlements on interest rate swaps used to manage the duration of the investment portfolio and lower crediting rates on general account liabilities in our full service business. The increase in net swap settlements resulted from the generally favorable impact of lower interest rates on the swaps used to manage the duration of the investment portfolio primarily for our institutional investment products business and a higher notional amount of those swaps for the first nine months of 2010. 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 primarily in our institutional investment products business grew in 2009 as the duration of the investment portfolio excluding the impact of swaps declined throughout 2009 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 cash and short-term investments. As discussed above, during the third quarter of 2010, the notional amounts of these swaps declined. Future net investment spread results could be impacted if interest rates or the notional amounts of these swaps change. Also contributing to the improvement in net investment spread results was increased income from equity method investments driven by mark-to-market gains in 2010 compared to mark-to-market losses in 2009. In addition, lower crediting rates on general account liabilities in our full service business, resulting from rate resets in the third quarter of 2009 and first quarter of 2010, contributed to the improvement in net investment spread results. Our ability to maintain current net spreads in our full service business in future periods is impacted by the levels of interest rates, the pace and extent of changes in interest rates, competitor pricing, and the minimum guaranteed crediting rates on our general account stable value products. Partially offsetting the improvement in net investment spread results was the negative impact of a lower base of invested assets in our general account reflecting scheduled withdrawals from guaranteed investment products in our institutional investment products business partially offset by the positive impact of increases in balances in our full service general account stable value products and from net additions in our structured settlement product. Net investment spread results in future periods may be negatively impacted if we are unable to replace scheduled withdrawals of guaranteed investment products with new additions. For further discussion of our sales, see Sales Results and Account Values.

Higher asset based fees were driven by an increase in average full service fee-based retirement account values and higher investment-only fee-based stable value account values in our institutional investment products business. The increase in average full service fee-based retirement account values was driven by market appreciation and net additions over the past twelve months. Higher investment-only fee-based stable value account values in our institutional investment products business were driven by net additions over the past twelve months.

Partially offsetting the increase in adjusted operating income was an increase in general and administrative expenses, net of capitalization, driven by expenses incurred in 2010 related to certain cost reduction initiatives. Also offsetting the increase in adjusted operating income was a less favorable benefit from reserve refinements, primarily due to a benefit in the first nine months of 2009 related to updates of client census data on our group annuity blocks of business.

Revenues

2010 to 2009 Three Month Comparison. Revenues, as shown in the table above under Operating Results, increased $276 million, from $1,100 million in the third quarter of 2009 to $1,376 million in the third

quarter of 2010. Premiums increased $261 million, driven by higher life-contingent structured settlement and single premium annuity sales which resulted in a corresponding increase in policyholders benefits, including the change in policy reserves, as discussed below. Also contributing to the increase in revenues was a $15 million increase in policy charges and fee income and asset management fees and other income, primarily driven by an increase in asset based fees due to an increase in average full service fee-based retirement account values and an increase in investment-only fee-based stable value account values partially offset by lower net settlements on interest rate swaps as discussed above.

Net investment income was relatively flat compared to the third quarter of 2009 primarily reflecting an increase in income from a higher base of invested assets from our structured settlement and full service general account stable value products, offset by declines in invested asset balances due to scheduled withdrawals of our general account guaranteed investment products in our institutional investment products business.

2010 to 2009 Nine Month Comparison. Revenues increased $350 million, from $3,525 million in the first nine months of 2009 to $3,875 million in the first nine months of 2010. Premiums increased $315 million, driven by higher life-contingent structured settlement and single premium annuity sales which resulted in a corresponding increase in policyholders benefits, including the change in policy reserves, as discussed below. Policy charges and fee income and asset management fees and other income increased $125 million, primarily driven by an increase in asset based fees due to an increase in average full service fee-based retirement account values, an increase in investment-only fee-based stable value account values, and increased income from net settlements on interest rate swaps as discussed above.

Partially offsetting these increases was a $90 million decrease in net investment income, primarily reflecting a smaller base of invested assets resulting from scheduled withdrawals of our general account guaranteed investment products in our institutional investment products business, and lower portfolio yields, including lower interest rates on floating rate investments due to rate resets. Partially offsetting these declines were increases in net investment income from an increase in income on equity method investments as discussed above.

Benefits and Expenses

2010 to 2009 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $274 million, from $983 million in the third quarter of 2009 to $1,257 million in the third quarter of 2010. 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 $7 million increase, benefits and expenses increased $267 million. Policyholders benefits, including the change in policy reserves, increased $261 million, primarily reflecting an increase in change in policy reserves associated with the increase in premiums. Also, general and administrative expenses, net of capitalization and excluding the items mentioned above, increased $17 million primarily driven by expenses incurred in 2010 related to certain cost reduction initiatives and higher commission expenses, net of capitalization. These increases were partially offset by a decrease in interest credited to policyholders account balances of $8 million, primarily reflecting a smaller base of invested assets related to our general account guaranteed investment products in our institutional investment products business due to scheduled withdrawals and lower crediting rates on full service stable value product liabilities due to rate resets.

2010 to 2009 Nine Month Comparison. Benefits and expenses increased $287 million, from $3,163 million in the first nine months of 2009 to $3,450 million in the first nine months of 2010. 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 $4 million increase, benefits and expenses increased $283 million. Policyholders benefits, including the change in policy reserves, increased $324 million, primarily reflecting an increase in change in policy reserves associated with the increase in premiums and a less favorable benefit from reserve refinements, as discussed above. Also, general and administrative expenses, net of capitalization, increased $44 million primarily driven by higher asset management costs due to an increase in average full service fee-based retirement account values, expenses incurred in 2010 related to certain cost

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reduction initiatives, and higher commission expenses, net of capitalization. These increases were partially offset by a decrease in interest credited to policyholders account balances of $71 million, primarily reflecting a smaller base of invested assets resulting from scheduled withdrawals of our general account guaranteed investment products in our institutional investment products business, lower crediting rates on floating rate guaranteed investment products, and lower crediting rates on full service stable value product liabilities due to rate resets. In addition, interest expense decreased $11 million reflecting lower interest rates and lower borrowings used to support investments.

Sales Results and Account Values

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Full Service(1):				
Beginning total account value	$ 125,176	$ 110,950	$ 126,345	$ 99,738
Deposits and sales	5,255	4,789	14,897	19,168
Withdrawals and benefits	(3,167)	(3,287)	(11,418)	(11,321)
Change in market value, interest credited and interest income	7,984	9,304	5,424	14,171
Ending total account value	$ 135,248	$ 121,756	$ 135,248	$ 121,756
Net additions	$ 2,088	$ 1,502	$ 3,479	$ 7,847
Institutional Investment Products(2):				
Beginning total account value	$ 55,965	$ 49,475	$ 51,908	$ 50,491
Additions(3)	3,076	1,329	8,644	4,299
Withdrawals and benefits(4)	(1,640)	(2,523)	(5,781)	(5,832)
Change in market value, interest credited and interest income	1,298	1,548	3,545	2,074
Other(5)	363	308	746	(895)
Ending total account value	$ 59,062	$ 50,137	$ 59,062	$ 50,137
Net additions (withdrawals)	$ 1,436	$ (1,194)	$ 2,863	$ (1,533)

(1) Ending total account value for the full service business includes assets of Prudential s retirement plan of $5.6 billion and $5.2 billion as of September 30, 2010 and September 30, 2009, respectively.

(2) Ending total account value for the institutional investment products business includes assets of Prudential s retirement plan of $5.8 billion and $5.3 billion as of September 30, 2010 and September 30, 2009, respectively. Ending total account value for the institutional investments products business also includes $1.5 billion as of both September 30, 2010 and September 30, 2009 related to collateralized funding agreements issued to the Federal Home Loan Bank of New York (FHLBNY), and $1.2 billion and $1.9 billion as of September 30, 2010 and September 30, 2009, respectively, related to affiliated funding agreements issued using the proceeds from the sale of Prudential Financial retail medium-term notes. For additional information regarding the FHLBNY and the retail medium-term notes program see, Liquidity and Capital Resources.

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

(4) Withdrawals and benefits includes $(240) million and $(685) million for the three and nine months ended September 30, 2010, respectively, and $(317) million for the three and nine months ended September 30, 2009 representing transfers of client balances from accounts we manage to externally managed accounts. These withdrawals are offset within Other, as there is no net impact on ending account values for these transfers.

(5) Other includes transfers from (to) the Asset Management segment of $(46) million for the nine months ended September 30, 2010. Other also includes $240 million and $685 million for the three and nine months ended September 30, 2010, respectively, and $317 million and a net $(183) million for the three and nine months ended September 30, 2009, respectively, representing transfers of client balances from/(to) accounts we manage to/(from) externally managed accounts. These transfers are offset within Additions or Withdrawals and benefits, as there is no net impact on ending account values for these transfers. Other for the nine months ended September 30, 2009 also includes $1,500 million representing collateralized funding agreements issued to the FHLBNY and for the nine months ended September 30, 2009 includes $(1,522) million representing terminations of affiliated funding agreements utilizing proceeds from the issuances to the FHLBNY. Remaining amounts for all periods presented primarily represent changes in asset balances for externally managed accounts.

2010 to 2009 Three Month Comparison. Account values in our full service business amounted to $135.2 billion as of September 30, 2010, an increase of $10.1 billion from June 30, 2010 primarily driven by an increase in the market value of customer funds due to favorable equity markets and net additions of $2.1 billion in the third quarter of 2010. Account values in our full service business increased $13.5 billion from September 30, 2009 primarily driven by an increase in the market value of customer funds due to equity market appreciation and $4.4 billion of net additions for the twelve months ended September 30, 2010. Net additions increased $0.6 billion, from $1.5 billion in the third quarter of 2009 to $2.1 billion in the third quarter of 2010, primarily reflecting higher new plan sales. New plan sales in the third quarter of 2010 included two client sales over $100 million totaling $1.8 billion compared to two client sales over $100 million in the third quarter of 2009, which totaled $1.2 billion.

Account values in our institutional investment products business amounted to $59.1 billion as of September 30, 2010, an increase of $3.1 billion from June 30, 2010 and $8.9 billion from September 30, 2009. The increase in account values was primarily driven by additions of investment-only fee-based stable value products and increases in the market value of customer funds, primarily from a decline in fixed income market yields and interest credited on the general account. These increases were partially offset by declines in general account guaranteed investment product account values due to scheduled withdrawals. Net additions (withdrawals) increased $2.6 billion, from net withdrawals of $1.2 billion in the third quarter of 2009 to net additions of $1.4 billion in the third quarter of 2010 primarily reflecting higher sales of investment-only fee-based stable value products and lower general account guaranteed investment product scheduled withdrawals. In addition, sales of guaranteed investment products in the institutional and retail markets continue to be negatively impacted by capital market conditions.

2010 to 2009 Nine Month Comparison. Account values in our full service business amounted to $135.2 billion as of September 30, 2010, an increase of $8.9 billion from December 31, 2009 primarily driven by an increase in the market value of customer funds due to favorable equity markets and net additions of $3.5 billion for the first nine months of 2010. Account values in our full service business increased $13.5 billion from September 30, 2009 primarily driven by an increase in the market value of customer funds due to equity market appreciation and $4.4 billion of net additions for the twelve months ended September 30, 2010. Net additions decreased $4.3 billion, from $7.8 billion in the first nine months of 2009 to $3.5 billion in the first nine months of 2010, primarily reflecting lower new plan sales as the first nine months of 2009 included significant large plan sales. New plan sales in the first nine months of 2010 included nine client sales over $100 million totaling $2.8 billion compared to ten client sales over $100 million in the first nine months of 2009, which totaled $7.0 billion.

Account values in our institutional investment products business amounted to $59.1 billion as of September 30, 2010, an increase of $7.2 billion from December 31, 2009 and $8.9 billion from September 30, 2009. The increase in account values was primarily driven by additions of investment-only fee-based stable value products and increases in the market value of customer funds, primarily from a decline in fixed income market yields and interest credited on the general account. These increases were partially offset by declines in general account guaranteed investment product account values due to scheduled withdrawals. Net additions (withdrawals) increased $4.4 billion, from net withdrawals of $1.5 billion in the first nine months of 2009 to net additions of $2.9 billion in the first nine months of 2010 primarily reflecting higher sales of investment-only fee-based stable value products and lower general account guaranteed investment product scheduled withdrawals. In addition, sales of guaranteed investment products in the institutional and retail markets continue to be negatively impacted by capital market conditions.

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Asset Management

Operating Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Operating results:				
Revenues	$ 493	$ 291	$ 1,366	$ 896
Expenses	345	262	1,011	835
Adjusted operating income	148	29	355	61
Realized investment gains (losses), net, and related adjustments(1)	20	5	38	(20)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(2)	4	(40)	14	(36)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 172	$ (6)	$ 407	$ 5

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

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

Adjusted Operating Income

2010 to 2009 Three Month Comparison. Adjusted operating income increased $119 million, from $29 million in the third quarter of 2009 to $148 million in the third quarter of 2010, primarily reflecting more favorable results from commercial mortgage activities, increased asset management fees, and more favorable investment results from proprietary investing activities.

Results from the segment s commercial mortgage activities increased primarily driven by a decrease in net credit and valuation-related charges on interim loans from $39 million in the third quarter of 2009 to no net impact in the third quarter of 2010. As of September 30, 2010, the principal balance of interim loans outstanding totaled $1.4 billion, which excludes both $36 million of commitments for future fundings that would need to be disbursed if the borrowers met the conditions for these fundings, as well as $89 million of commercial real estate held for sale

related to foreclosed interim loans. As of September 30, 2010, these interim loans outstanding had a weighted average loan-to-value ratio of 105%, indicating that, in aggregate, the loan amount is greater than the collateral value. As of September 30, 2010, for those loans where the loan amount is greater than the collateral value, the excess of the loan amount over the collateral value is $155 million. The interim loans had a weighted average debt service coverage ratio of 1.21 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 $172 million as of September 30, 2010.

Also contributing to the increase in adjusted operating income was an increase in asset management fees of $51 million primarily from institutional and retail customer assets as a result of higher asset values due to market appreciation and positive net asset flows. In addition, results of the segment s proprietary investing activities

increased $29 million, from a loss of $22 million in the third quarter of 2009 to income of $7 million in the third quarter of 2010, primarily due to improved results within proprietary investing real estate investments. Real estate proprietary investing results in the third quarter of 2009 reflect losses of $25 million, compared to income of $1 million in the third quarter of 2010, primarily reflecting the impact of declines in real estate values on co-investments and seed investments in the prior year quarter. Results in the third quarter of 2010 also reflect an increase in performance based incentive fees primarily related to institutional real estate funds. These increases were partially offset by an increase in compensation expenses.

2010 to 2009 Nine Month Comparison. Adjusted operating income increased $294 million, from $61 million in the first nine months of 2009 to $355 million in the first nine months of 2010. Results in the first nine months of 2010 reflect an increase in asset management fees of $173 million primarily from retail and institutional customer assets as a result of higher asset values due to market appreciation and positive net asset flows. Results of the segment s proprietary investing activities increased $99 million, from a loss of $82 million in the first nine months of 2009 to income of $17 million in the first nine months of 2010, primarily due to improved results within proprietary investing real estate and fixed income investments. Real estate proprietary investing results in the first nine months of 2009 reflect losses of $75 million, compared to income of $5 million in the first nine months of 2010, primarily reflecting the impact of declines in real estate values on co-investments and seed investments in the prior year period. Results in the first nine months of 2009 also reflect losses of $11 million in a fixed income fund, compared to zero in the first nine months of 2010. The Asset Management segment redeemed its entire investment in the fixed income fund as of June 30, 2009. In addition, proprietary investing fixed income investment results in the first nine months of 2009 included impairments of $10 million on collateralized debt obligations, which as of September 30, 2010, have an amortized cost of zero.

Also contributing to the increase in adjusted operating income was an increase in results from the segment s commercial mortgage activities primarily driven by lower credit and valuation-related charges of $87 million on interim loans, partially offset by lower net investment income on commercial mortgage holdings. In addition, results in the first nine months of 2010 reflect an increase in performance based incentive fees primarily related to institutional real estate funds. These increases were partially offset by an increase in compensation expenses and lower income related to securities lending activities.

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Revenues

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Revenues by type:				
Asset management fees by source:				
Institutional customers	$ 159	$ 129	$ 463	$ 374
Retail customers(1)	87	71	255	189
General account	74	69	217	199
Total asset management fees	320	269	935	762
Incentive fees	11	(2)	50	8
Transaction fees	10	8	17	20
Proprietary investing	11	(14)	31	(57)
Commercial mortgage(2)	36	(5)	60	(18)
Total incentive, transaction, proprietary investing and commercial mortgage revenues	68	(13)	158	(47)
Service, distribution and other revenues(3)	105	35	273	181
Total revenues	$ 493	$ 291	$ 1,366	$ 896

(1) Consists of fees from: (a) individual mutual funds and both variable annuities and variable life insurance asset management revenues from our separate accounts; (b) funds invested in proprietary mutual funds through our defined contribution plan products; and (c) third party sub-advisory relationships. Revenues from fixed annuities and the fixed rate 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 $18 million and $16 million in the three months ended September 30, 2010 and 2009, respectively, and $49 million and $46 million in the nine months ended September 30, 2010 and 2009, respectively.

	September 30,	
	2010	2009
	(in billions)	
Assets Under Management (at fair market value):		
Institutional customers(1)	$ 222.1	$ 179.9
Retail customers(2)	92.7	79.1
General account	203.3	184.9

Total	$ 518.1	$ 443.9

(1) Consists of third party institutional assets and group insurance contracts.
(2) Consists of: (a) individual mutual funds and both variable annuities and variable life insurance assets in our separate accounts; (b) funds invested in proprietary mutual funds through our defined contribution plan products; and (c) third party sub-advisory relationships. Fixed annuities and the fixed rate 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.

	September 30, 2010	September 30, 2009
	(in millions)	
Co-Investments:		
Real Estate	$ 343	$ 284
Fixed Income	28	3
Seed Investments:		
Real Estate	208	186
Public Equity	77	40
Fixed Income	104	32
Loans Secured by Investor Equity Commitments or Fund Assets:		
Real Estate secured by Investor Equity	0	29
Private Equity secured by Investor Equity	0	10
Real Estate secured by Fund Assets	204	313
Total	$ 964	$ 897

2010 to 2009 Three Month Comparison. Revenues, as shown in the table above under Operating Results, increased $202 million, from $291 million in the third quarter of 2009 to $493 million in the third quarter of 2010. Asset management fees increased $51 million primarily from the management of institutional and retail customer assets as a result of higher asset values due to market appreciation and positive net asset flows. Commercial mortgage revenues increased $41 million primarily reflecting net credit and valuation-related charges on interim loans in the third quarter of 2009, as discussed above. Proprietary investing revenues increased $25 million reflecting improved results in proprietary investing real estate investments as discussed above. Also contributing to the increase were higher revenues in certain consolidated real estate funds, which were fully offset by higher expenses related to noncontrolling interest in these funds.

2010 to 2009 Nine Month Comparison. Revenues increased $470 million, from $896 million in the first nine months of 2009 to $1,366 million in the first nine months of 2010. Asset management fees increased $173 million primarily from the management of institutional and retail customer assets as a result of higher asset values due to market appreciation and positive net asset flows. Proprietary investing revenues increased $88 million reflecting improved results in proprietary investing fixed income and real estate investments as discussed above. Commercial mortgage revenues increased $78 million primarily reflecting lower net credit and valuation-related charges on interim loans, partially offset by lower net investment income. In addition, incentive fees increased $42 million primarily related to institutional real estate funds. 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 September 30, 2010, $162 million of cumulative incentive fee revenue, net of compensation, is subject to future adjustment, compared to $150 million as of December 31, 2009. Future incentive, transaction, proprietary investing and commercial mortgage revenues will be impacted by the level and diversification of our proprietary investments, the commercial real estate market, and other domestic and international market conditions.

Expenses

2010 to 2009 Three Month Comparison. Expenses, as shown in the table above under Operating Results, increased $83 million, from $262 million in the third quarter of 2009 to $345 million in the third quarter of 2010, driven by increased compensation costs due to higher incentive compensation resulting from the increased revenues, as discussed above. In addition, expenses related to revenues associated with certain consolidated real estate funds increased, as discussed above.

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2010 to 2009 Nine Month Comparison. Expenses increased $176 million, from $835 million in the first nine months of 2009 to $1,011 million in the first nine months of 2010, primarily driven by increased compensation costs due to higher incentive compensation resulting from the increased revenues, as discussed above. In addition, expenses related to revenues associated with certain consolidated real estate funds increased, as discussed above.

U.S. Individual Life and Group Insurance Division

Individual Life

Operating Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Operating results:				
Revenues	$ 638	$ 656	$ 2,076	$ 2,039
Benefits and expenses	448	413	1,707	1,618
Adjusted operating income	190	243	369	421
Realized investment gains (losses), net, and related adjustments(1)	(6)	43	(108)	75
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 184	$ 286	$ 261	$ 496

(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

2010 to 2009 Three Month Comparison. Adjusted operating income decreased $53 million, from $243 million in the third quarter of 2009 to $190 million in the third quarter of 2010. Results for the third quarter of 2010 benefited from lower amortization of net deferred policy acquisition costs and unearned revenue reserves, as well as a decrease in reserves for the guaranteed minimum death benefit feature in certain contracts, reflecting updates of our actuarial assumptions based on annual reviews, compared to a similar benefit from annual reviews in the third quarter of 2009. The annual reviews cover 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 the reserve for the guaranteed minimum death benefit feature in

certain contracts. The third quarter of 2010 included a $52 million benefit from the annual reviews, primarily reflecting methodology refinements to the treatment of certain investment income in our assumptions, as well as improved future mortality expectations. Adjusted operating income for the third quarter of 2009 included a $55 million benefit from the annual reviews which primarily reflected higher investment spread assumptions and improved future mortality expectations. The third quarter of 2009 also included a $30 million benefit from compensation received based on multi-year profitability of third-party products we distribute. These compensation arrangements are subject to renegotiations periodically which will affect the amount of additional compensation we are eligible to receive. The largest of these arrangements was renegotiated in 2008 and the profit opportunities were reduced significantly in 2010 and beyond resulting in a benefit of less than $1 million in the third quarter of 2010.

Absent the effect of these items, adjusted operating income for the third quarter of 2010 decreased $20 million from the third quarter of 2009 driven by less favorable mortality experience, net of reinsurance. Also contributing to the decrease in adjusted operating income was a $12 million lower benefit from amortization of

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deferred policy acquisition costs net of related amortization of unearned revenue reserves associated with the quarterly impact of changes in our estimates of total gross profits, primarily from variable products. This benefit largely reflects the impact of equity markets on separate account fund performance in the respective periods. The estimates of total gross profits are used as a basis for amortizing deferred policy acquisition costs and unearned revenue reserves, and are discussed in more detail below. Partially offsetting the decreases above was higher net investment spread income driven by higher asset levels supporting the growth in our universal life and term products.

The table below reflects the impacts to the amortization of deferred policy acquisition costs and unearned revenue reserves from changes in our estimates of total gross profits, excluding the impacts of the annual reviews discussed above.

	Three Months Ended September 30, 2010			Three Months Ended September 30, 2009		
	Amortization of DAC(1)	Amortization of URR(2)	Total	Amortization of DAC(1)	Amortization of URR(2)	Total
			(in millions)			
Separate account fund performance	$ 43	$ (18)	$ 25	$ 58	$ (22)	$ 36
Persistency	0	0	0	0	0	0
Mortality and other items	(23)	17	(6)	(14)	9	(5)
Total update for current period experience and fund performance	$ 20	$ (1)	$ 19	$ 44	$ (13)	$ 31

(1) Amounts reflect (increases) or decreases in the amortization of deferred policy acquisition costs, or DAC.
(2) Amounts reflect increases or (decreases) in the amortization of unearned revenue reserves, or URR.

The net benefit in both periods in amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves, mentioned above, includes the impact of separate account fund performance on our estimate of future gross profits. The actual rate of return on separate account funds for the third quarter of 2010 was 8.3% compared to our expected rate of return of 2.5%. The higher than expected market returns resulted in an increase in total future gross profits by establishing a higher starting point for the fund balances used in estimating those profits in future periods. The increase in our estimate of total gross profits resulted in a lower required rate of amortization of deferred policy acquisition costs, partially offset by a lower required rate of amortization of unearned revenue reserves. This resulted in a $25 million net benefit in the third quarter of 2010. The third quarter of 2009 reflects a similar impact on gross profits as separate account fund performance was above expected levels. The actual rate of return on separate account funds for the third quarter of 2009 was 11.5% compared to our expected rate of return of 2.6% resulting in a $36 million net benefit. The previously expected separate account fund performance was based on our maximum future rate of return assumption under the reversion to the mean approach, as discussed below.

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 the third quarter of 2010, the projected near-term future annual rate of return calculated using the reversion to the mean approach for most variable policies was greater than our near-term maximum future rate of return assumption across all asset types for this business. In those cases, 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 9.8% for the third quarter of 2010. Included in the blended maximum future rate are assumptions for returns on various asset classes, including a 5.7% annual weighted average rate of return on fixed income investments and a 13% annual maximum rate of return on equity investments.

2010 to 2009 Nine Month Comparison. Adjusted operating income decreased $52 million, from $421 million in the first nine months of 2009 to $369 million in the first nine months of 2010. Results for the first nine months of 2010 benefited from lower amortization of net deferred policy acquisition costs and unearned revenue reserves, as well as a decrease in reserves for the guaranteed minimum death benefit feature in certain contracts, reflecting updates of our actuarial assumptions based on annual reviews, compared to a similar benefit from annual reviews in the first nine months of 2009. Adjusted operating income for the first nine months of 2010 included a $52 million benefit from the annual reviews, compared to a similar benefit of $55 million for the first nine months of 2009. Results for the first nine months of 2009 also included a $30 million benefit from compensation received based on multi-year profitability of third-party products we distribute, while results for the first nine months of 2010 include a benefit of less than $1 million for this item, as discussed above.

Absent the effect of these items, adjusted operating income for the first nine months of 2010 decreased $19 million, primarily due to an $18 million increase in amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves, resulting from changes in our estimates of total gross profits primarily from variable products. This increase largely reflects the impact of equity markets on separate account fund performance in the respective periods, partially offset by the impact of policyholder persistency which in 2010 returned to levels that are more consistent with expectations, and is discussed in more detail below. The decrease in adjusted operating income also reflects mortality experience, net of reinsurance, which was more unfavorable in relation to expectations compared to the prior year period. Partially offsetting these items was the impact of gains in the first nine months of 2010 compared to losses in the first nine months of 2009 on an investment in a real property separate account fund.

The table below reflects the impacts to the amortization of deferred policy acquisition costs and unearned revenue reserves from changes in our estimates of total gross profits, excluding the impacts of the annual reviews discussed above.

	Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2009		
	Amortization of DAC(1)	Amortization of URR(2)	Total	Amortization of DAC(1)	Amortization of URR(2)	Total
	(in millions)					
Separate account fund performance	$ 1	$ 1	$ 2	$ 78	$ (26)	$ 52
Persistency	5	(2)	3	(48)	20	(28)
Mortality and other items	(32)	20	(12)	(30)	17	(13)
Total update for current period experience and fund performance	$ (26)	$ 19	$ (7)	$ 0	$ 11	$ 11

(1) Amounts reflect (increases) or decreases in the amortization of deferred policy acquisition costs, or DAC.
(2) Amounts reflect increases or (decreases) in the amortization of unearned revenue reserves, or URR.

The net $7 million increase in amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves, mentioned above, for the first nine months of 2010 was primarily driven by the impact of less favorable mortality and lower than expected investment margins. Overall market returns for the first nine months of 2010 were relatively consistent compared to our expectations resulting in a net $2 million decrease in amortization of deferred policy acquisition costs, net of related amortization of unearned revenue reserves. The overall higher than expected market returns for the first nine months of 2009 resulted in an increase in total future gross profits by establishing a higher starting point for the fund balances used in estimating those profits in future periods. The increase in our estimate of total gross profits results in a lower required rate of amortization of deferred policy acquisition costs, partially offset by a lower required rate of amortization of unearned revenue reserves. This resulted in a $52 million net benefit in the first nine months of 2009. In addition, the net increase in amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves, mentioned above, includes the impact

of variable product policyholder persistency that results in differences between actual gross profits for the period and the previously estimated expected gross profits for

the period. The first nine months of 2010 includes a $3 million benefit from lower amortization of deferred policy acquisition costs, net of related amortization of unearned revenue reserves, reflecting better than expected gross profits driven by policyholder persistency which returned to levels that are more consistent with expectations, compared to a $28 million expense in the first nine months of 2009, reflecting a similar but opposite impact from lower than expected policyholder persistency.

Revenues

2010 to 2009 Three Month Comparison. Revenues, as shown in the table above under Operating Results, decreased $18 million, from $656 million in the third quarter of 2009 to $638 million in the third quarter of 2010. Policy charges and fees and asset management fees and other income decreased $46 million, including a $31 million decrease in amortization of unearned revenue reserves due to annual reviews of assumptions, and a $30 million decrease in compensation received based on multi-year profitability of third-party products we distribute, as discussed above. Absent these items policy charges and fees and asset management fees and other income increased $15 million driven by an increase in current quarter amortization of unearned revenue reserves reflecting a smaller impact from favorable market conditions on separate account performance, as discussed above, and unfavorable mortality experience. Net investment income increased $25 million, due to higher asset balances primarily from growth in assets supporting term reserves and universal life account balances due to increased policyholder premiums and deposits.

2010 to 2009 Nine Month Comparison. Revenues increased $37 million, from $2.039 billion in the first nine months of 2009 to $2.076 billion in the first nine months of 2010. Net investment income increased $64 million, due to higher asset balances primarily from higher universal life and variable policyholder account balances due to increased policyholder deposits, as well as gains in the first nine months of 2010 compared to losses in the first nine months of 2009 on investments in real property separate account funds. Premiums increased $26 million, primarily due to growth of our in force block of term insurance. Policy charges and fees and asset management fees and other income decreased $53 million including a $31 million decrease in amortization of unearned revenue reserves due to annual reviews of assumptions, and a $30 million decrease in compensation received based on multi-year profitability of third-party products we distribute, as discussed above. Absent these items policy charges and fees and asset management fees and other income increased $8 million, driven by an increase in current period amortization of unearned revenue reserves reflecting a smaller impact from favorable market conditions on separate account fund performance as discussed above, partially offset by a decrease in amortization driven by policyholder persistency which has returned to levels more consistent with expectations in the first nine months of 2010. Partially offsetting the increase in policy charges and fees and asset management fees and other income were higher costs on net settlements of interest rate swaps associated with our floating rate debt due to lower interest rates in the first nine months of 2010, offset by lower interest expense, as discussed below.

Benefits and Expenses

2010 to 2009 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $35 million, from $413 million in the third quarter of 2009 to $448 million in the third quarter of 2010. Absent the impacts of the annual reviews conducted in the third quarter of both periods, benefits and expenses increased $63 million, from $538 million in the third quarter of 2009 to $601 million in the third quarter of 2010. On this basis, amortization of deferred policy acquisition costs increased $26 million primarily due to a less favorable impact of equity markets on separate account profitability and to a lesser extent current period profits. Policyholders benefits, including interest credited to policyholders increased $38 million due to growth in universal life and variable policyholder account balances, increases in policyholder reserves and expected claim costs associated with growth in our in force block of term and universal life business.

2010 to 2009 Nine Month Comparison. Benefits and expenses increased $89 million, from $1.618 billion in the first nine months of 2009 to $1.707 billion in the first nine months of 2010. Absent the impacts of the annual

reviews conducted in the third quarter of both periods, benefits and expenses increased $117 million, from $1.743 billion in the first nine months of 2009 to $1.860 billion in the first nine months of 2010. On this basis, policyholders benefits, including interest credited to policyholders, increased $112 million due to growth in universal life and variable policyholder account balances, increases in policyholder reserves, and expected claim costs associated with growth in our in force block of term and universal life business. In addition, mortality experience was more unfavorable, relative to expected levels, compared to the prior year period. Amortization of deferred policy acquisition costs increased $35 million primarily due to a less favorable impact of equity markets on separate account fund performance, partially offset by the impact of policyholder persistency which in 2010 returned to levels more consistent with expectations. Partially offsetting these items was a decrease in interest expense on floating rate debt of $23 million driven by a decline in interest rates on borrowings. This floating rate debt is swapped to a fixed rate using interest rate swaps.

Sales Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Annualized New Business Premiums(1):				
Variable Life	$ 6	$ 3	$ 16	$ 12
Universal Life	20	26	57	86
Term Life	38	57	120	170
Total	$ 64	$ 86	$ 193	$ 268
Annualized new business premiums by distribution channel(1):				
Prudential Agents	$ 20	$ 22	$ 62	$ 68
Third party	44	64	131	200
Total	$ 64	$ 86	$ 193	$ 268

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

2010 to 2009 Three Month Comparison. Sales of new life insurance, measured as described above, decreased $22 million, from $86 million in the third quarter of 2009 to $64 million in the third quarter of 2010. The decrease in sales is primarily due to a $19 million decrease in term life product sales and a $6 million decrease in sales of universal life products driven by lower third party distribution sales. Sales from the third party distribution channel were $20 million lower than the third quarter of 2009 due to lower sales of universal life products and sales of term life products, both of which were impacted by price increases implemented in 2009. Sales by Prudential Agents were $2 million lower than the third quarter of 2009 primarily due to lower sales of both universal life products and term life products. The number of Prudential Agents increased from 2,453 at September 30, 2009 to 2,478 at September 30, 2010.

2010 to 2009 Nine Month Comparison. Sales of new life insurance, measured as described above, decreased $75 million, from $268 million in the first nine months of 2009 to $193 million in the first nine months of 2010. The decrease in sales is primarily due to a $50 million decrease in term life product sales and a $29 million decrease in sales of universal life products driven by lower third party distribution sales. Sales from the third

party distribution channel were $69 million lower than the first nine months of 2009 due to lower sales of universal life products and sales of term life products, both of which were impacted by price increases implemented in 2009. Sales by Prudential Agents were $6 million lower than the first nine months of 2009 primarily due to lower sales of both universal life products and term life products.

Policy Surrender Experience

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	($ in millions)			
Cash value of surrenders	$ 183	$ 173	$ 525	$ 665
Cash value of surrenders as a percentage of mean future benefit reserves, policyholders account balances, and separate account balances	3.3%	3.4%	3.1%	4.4%

2010 to 2009 Three Month Comparison. The total cash value of surrenders increased $10 million, from $173 million in the third quarter of 2009 to $183 million in the third quarter of 2010, reflecting a higher volume of variable life insurance surrenders compared to the third quarter of 2009. The level of surrenders as a percentage of mean future policy benefit reserves, policyholders account balances and separate account balances decreased from 3.4% in the third quarter of 2009 to 3.3% in the third quarter of 2010.

2010 to 2009 Nine Month Comparison. The total cash value of surrenders decreased $140 million, from $665 million in the first nine months of 2009 to $525 million in the first nine months of 2010, as surrenders in the first nine months of 2010 returned to levels that are more consistent with expectations compared to the prior year. The first nine months of 2009 reflects a greater volume of surrenders, including lapses to extended term, of variable life insurance, due primarily to market conditions at the time 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 decreased from 4.4% in the first nine months of 2009 to 3.1% in the first nine months of 2010, driven by a decrease in the total cash value of surrenders as described above, as well as higher average account balances primarily driven by market appreciation over the past twelve months.

Group Insurance

Operating Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Operating results:				
Revenues	$ 1,466	$ 1,356	$ 4,093	$ 3,992
Benefits and expenses	1,405	1,292	3,947	3,730
Adjusted operating income	61	64	146	262
Realized investment gains (losses), net, and related adjustments(1)	14	(8)	52	(193)
Related charges(2)	(1)	(2)	(1)	(6)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 74	$ 54	$ 197	$ 63

(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

2010 to 2009 Three Month Comparison. Adjusted operating income decreased $3 million, from $64 million in the third quarter of 2009 to $61 million in the third quarter of 2010. Results reflect a net benefit of $28 million in the third quarter of 2010, from reserve refinements in both the group life and group disability businesses, including the impact of annual reviews, compared to a net benefit of zero in the third quarter of 2009. Excluding this item, adjusted operating income decreased $31 million reflecting less favorable underwriting results in 2010 related to less favorable claims experience on group life non-retrospectively experience-rated business due to an increase in the number of claims, as well as the lapse of certain business and repricing of other business up for renewal with favorable claims experience in the third quarter of 2009, reflecting the competitive market. Also contributing to the decrease in adjusted operating income were higher operating expenses, including higher costs to support disability operations and expansion into the group dental market.

2010 to 2009 Nine Month Comparison. Adjusted operating income decreased $116 million, from $262 million in the first nine months of 2009 to $146 million in the first nine months of 2010. Results reflected a net benefit of $28 million in the first nine months of 2010, from reserve refinements in both the group life and group disability businesses, including the impact of annual reviews, compared to a net benefit of zero in the first nine months of 2009. Excluding this item, adjusted operating income decreased $144 million primarily reflecting less favorable

underwriting results in 2010 primarily related to less favorable claims experience on group life non-retrospectively experience-rated business due to an increase in the number of claims, as well as the lapse of certain business and repricing of other business up for renewal with favorable claims experience in the first nine months of 2009, reflecting the competitive market. In addition, underwriting results reflect less favorable long-term disability claims experience in our group disability business in the first nine months of 2010. Also contributing to the decrease in adjusted operating income were higher operating expenses primarily to support disability operations and expansion into the group dental market, and an unfavorable impact from the refinement of a premium tax estimate.

Revenues

2010 to 2009 Three Month Comparison. Revenues, as shown in the table above under Operating Results, increased by $110 million, from $1.356 billion in the third quarter of 2009 to $1.466 billion in the third quarter of 2010. Group life premiums and policy charges and fee income, increased by $116 million, from $873 million in the third quarter of 2009 to $989 million in the third quarter of 2010. This increase primarily reflects higher premiums from retrospectively experience-rated group life business resulting from the increase in policyholder benefits on these contracts as discussed below. Also contributing to the increase were higher premiums from non-retrospectively experience-rated group life business primarily reflecting growth of business in force resulting from new sales, partially offset by the lapse of certain business and repricing of other business up for renewal, as discussed above. Group disability premiums and policy charges and fee income, which include long-term care products, decreased by $7 million, from $291 million in the third quarter of 2009 to $284 million in the third quarter of 2010. This decrease primarily reflects lower premiums associated with the assumption of existing liabilities from third parties, partially offset by growth of business in force resulting from new sales.

2010 to 2009 Nine Month Comparison. Revenues increased by $101 million, from $3.992 billion in the first nine months of 2009 to $4.093 billion in the first nine months of 2010. Group life premiums and policy charges and fee income, increased by $104 million, from $2.579 billion in the first nine months of 2009 to $2.683 billion in the first nine months of 2010, primarily reflecting higher premiums from retrospectively experience-rated group life business resulting from the increase in policyholder benefits on these contracts as discussed below. Also contributing to the increase were higher premiums from non-retrospectively experience-rated group life business primarily reflecting growth of business in force resulting from new sales, partially offset by the lapse of certain business and repricing of other business up for renewal, as discussed above. Group disability premiums and policy charges and fee income, which include long-term care products, decreased by $15 million, from $852 million in the first nine month of 2009 to $837 million in the first nine months of 2010. This decrease primarily reflects lower premiums associated with the assumption of existing liabilities from third parties, mostly offset by growth of business in force resulting from new sales.

Benefits and Expenses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Benefits ratio(1):				
Group life	89.0%	89.8%	90.8%	88.4%
Group disability	99.7%	93.5%	93.1%	88.5%
Administrative operating expense ratio(2):				
Group life	8.5%	9.1%	8.8%	8.9%
Group disability	21.3%	17.5%	22.0%	17.8%

(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.

2010 to 2009 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased by $113 million, from $1.292 billion in the third quarter of 2009 to $1.405 billion in the third quarter of 2010. This increase reflects a $106 million increase in policyholders benefits, including the change in policy reserves, from $1.057 billion in the third quarter of 2009 to $1.163 billion in the third quarter of 2010. Our group life business reflected greater benefits from less favorable claims experience,

including an increase in benefits on retrospectively experience-rated business that resulted in increased premiums, partially offset by the benefit of reserve refinements in the third quarter of 2010, as discussed above. Also contributing to the increase in benefits and expenses were higher operating expenses, as discussed above.

The group life benefits ratio improved 0.8 percentage points from the third quarter of 2009 to the third quarter of 2010, reflecting the favorable impact of the reserve refinements, partially offset by less favorable claims experience, as well as the lapse of certain business and repricing of other business up for renewal with favorable claims experience in the third quarter of 2009, reflecting the competitive market. The group disability benefits ratio deteriorated 6.2 percentage points from the third quarter of 2009 to the third quarter of 2010 primarily due to less favorable long-term disability claims experience combined with an unfavorable impact from reserve refinements including the impact of the annual reviews. The group life administrative operating expense ratio improved 0.6 percentage points from the third quarter of 2009 to the third quarter of 2010. The group disability administrative operating expense ratio deteriorated 3.8 percentage points from the third quarter of 2009 to the third quarter of 2010, primarily due to higher costs to support disability operations and expansion into the group dental market, as well as lower premiums associated with the assumption of existing liabilities from third parties.

2010 to 2009 Nine Month Comparison. Benefits and expenses increased by $217 million, from $3.730 billion in the first nine months of 2009 to $3.947 billion in the first nine months of 2010. This increase reflects a $182 million increase in policyholders benefits, including the change in policy reserves, from $3.033 billion in the first nine months of 2009 to $3.215 billion in the first nine months of 2010. Our group life business reflected greater benefits from less favorable claims experience, including an increase in benefits on retrospectively experience-rated business that resulted in increased premiums, partially offset by the benefit of reserve refinements in the third quarter of 2010 and a decrease in policyholder benefits associated with the assumption of existing liabilities from third parties. Also contributing to the increase in benefits and expenses were higher operating expenses, as discussed above.

The group life benefits ratio deteriorated 2.4 percentage points from the first nine months of 2009 to the first nine months of 2010, due to less favorable claims experience, as well as the lapse of certain business and repricing of other business up for renewal with favorable claims experience in the prior period, reflecting the competitive market, partially offset by the favorable impact of the reserve refinements. The group disability benefits ratio deteriorated 4.6 percentage points from the first nine months of 2009 to the first nine months of 2010, primarily due to less favorable long-term disability claims experience combined with an unfavorable impact from reserve refinements, including the impact of the annual reviews. The group life administrative operating expense ratio was relatively unchanged from the first nine months of 2009 to the first nine months of 2010. The group disability administrative operating expense ratio deteriorated 4.2 percentage points from the first nine months of 2009 to the first nine months of 2010, primarily due to higher costs to support disability operations and expansion into the group dental market, lower premiums associated with the assumption of existing liabilities from third parties, as well as an unfavorable impact from the refinement of a premium tax estimate.

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Sales Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Annualized new business premiums(1):				
Group life	$ 84	$ 53	$ 364	$ 298
Group disability(2)	26	57	134	217
Total	$ 110	$ 110	$ 498	$ 515

(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.

2010 to 2009 Three Month Comparison. Total annualized new business premiums remained unchanged, from $110 million in the third quarter of 2009 to $110 million in the third quarter of 2010. Group life sales increased $31 million driven primarily by higher large case sales to new customers. Group disability sales decreased $31 million primarily due to lower sales to both new and existing customers, as well as a decrease in long-term care sales reflecting the wind down of a preferred provider arrangement.

2010 to 2009 Nine Month Comparison. Total annualized new business premiums decreased $17 million, from $515 million in the first nine months of 2009 to $498 million in the first nine months of 2010. Group disability sales decreased $83 million primarily due to lower sales of large case disability products to both new and existing customers and lower premiums associated with the assumption of existing liabilities from third parties, as well as a decrease in long-term care sales reflecting the wind down of a preferred provider arrangement. Group life sales increased $66 million driven primarily by increased large case sales to new customers, partially offset by lower premiums associated with the assumption of existing liabilities from third parties during the first nine months of 2010.

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 Europe.

During the first quarter of 2010, we discontinued our currency income hedging program associated with the International Investment segment s businesses in Korea, a result of our signing of a definitive agreement to sell Prudential Investment & Securities Co., Ltd. and Prudential Asset Management Co., Ltd, which together comprise our Korean asset management operations. As a result of the agreement, we have reflected results of our Korean asset management operations, including the impact of this program, as discontinued operations for all periods reported. This transaction closed on June 1, 2010.

The intercompany arrangement with Corporate and Other operations increased (decreased) revenues and adjusted operating income of each segment as follows for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
		(in millions)		
Impact on revenues and adjusted operating income:				
International Insurance	$ (30)	$ (19)	$ (54)	$ (23)
International Investments	1	0	2	3
Total International Insurance and Investments Division	$ (29)	$ (19)	$ (52)	$ (20)

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 hedging of actual earnings as a result of projected earnings differing from actual earnings. The net impact of this program recorded within the Corporate and Other operations were gains of $2 million and $8 million for the three months ended September 30, 2010 and 2009, respectively, and a loss of $6 million and a gain of $11 million for the nine months ended September 30, 2010 and 2009, respectively.

The notional amounts of these forward currency contracts were $2.7 billion as of both September 30, 2010 and December 31, 2009, of which $2.1 billion and $2.0 billion as of September 30, 2010 and December 31, 2009, 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 September 30, 2010 and December 31, 2009, the notional amount of these investments was ¥357 billion, or $3.2 billion, and ¥430 billion,

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or $3.8 billion, respectively, based upon the foreign currency exchange rates applicable at the time these investments were acquired. The weighted average yield generated by these investments were 2.8% and 2.6% for the three and nine months ended September 30, 2010, respectively, and 2.3% and 2.6% for the three and nine months ended September 30, 2009, respectively.

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

	September 30, 2010	December 31, 2009
	(in millions)	
Cross-currency coupon swap agreements	$ (58)	$ (66)
Foreign exchange component of interest on dual currency investments	(116)	(100)
Total	$ (174)	$ (166)

The table below presents as of September 30, 2010, 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	Total Yen-denominated earnings subject to these investments	Weighted average forward exchange rate per U.S. Dollar
		(in billions)		(Yen per $)
Remainder of 2010	¥ 1.1	¥ 1.2	¥ 2.3	86.5
2011	3.4	3.9	7.3	85.3
2012	3.1	2.9	6.0	83.0
2013	2.9	2.5	5.4	81.6
2014-2034	30.4	51.1	81.5	79.2
Total	¥ 40.9	¥ 61.6	¥ 102.5	80.1

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

The present value of the earnings reflected in the table above, on a U.S. dollar denominated basis, is $1.0 billion as of September 30, 2010. 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 continue to refine our current capital management framework, and as we further develop this framework, or as other events occur, we may alter this strategy. 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 $5.9 billion as of September 30, 2010 excluding Accumulated other comprehensive income (loss)

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 our Taiwan insurance operation, the U.S. GAAP equity exposure is mitigated by holding a variety of instruments, including U.S. dollar denominated investments. During 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. For the same reasons, during the third quarter of 2010, we also terminated our hedges of the U.S. GAAP equity exposure for all of our other foreign operations, excluding our Japan and Taiwan insurance operations.

As of September 30, 2010, the aggregate amount of the instruments serving as hedges of our estimated available economic capital, which includes the $5.9 billion attributable to the U.S. GAAP equity of our Japanese insurance operations discussed above, amounted to $7.1 billion, an increase of $0.1 billion from the $7.0 billion hedged as of December 31, 2009. These instruments were principally comprised of available for sale U.S. dollar denominated investments with an amortized cost of $5.6 billion and held to maturity U.S. dollar denominated investments with an amortized cost of $0.6 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 $7.1 billion of instruments serving as an equity hedge of a portion of the estimated available economic capital, results in a total estimated available economic capital hedge of approximately $10.2 billion as of September 30, 2010. In addition, as discussed below, we have $9.6 billion of U.S. dollar assets supporting U.S. dollar liabilities related to U.S. dollar denominated products issued by our Japanese operations, which when added to the $10.2 billion of total estimated available economic capital hedge, results in total U.S. dollar instruments of approximately $19.8 billion as of September 30, 2010.

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. Changes in the U.S. GAAP equity of our Japanese insurance operations due to foreign currency exchange rate movements are also recorded in Accumulated other comprehensive income (loss) as a Foreign currency translation 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 (loss) 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 U.S. dollar denominated investments are recorded on the books of yen-based entities, foreign currency exchange movements, including those reflected in the forward curve at the time of purchase of these investments, will impact their value. To the extent the value of the yen strengthens as compared to the U.S. dollar, the value of these U.S. dollar denominated investments will decrease as a result of changes in the foreign currency exchange rates. Upon the ultimate sale or maturity of the U.S. dollar denominated investments, any realized change in value related to changes in the foreign currency exchange rates will be included in Realized investment gains (losses), net within the income statement and, excluded from adjusted operating income. Similarly, other-than-temporary impairments on these investments may include the impact of changes in foreign currency exchange rates, which in certain circumstances will be included in Realized investment gains (losses), net within the 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 September 30, 2010 and December 31, 2009, our international insurance operations also had $9.1 billion and $7.7 billion, respectively, of foreign currency exposure from U.S. dollar liabilities for U.S. dollar denominated products issued by these operations. A portion of these liabilities are coinsured to our U.S. domiciled insurance operations and supported by U.S. dollar denominated assets. For the U.S. dollar liabilities retained in Japan, our Japanese operations hold U.S. dollar denominated investments, including a significant portion that are designated as available for sale, and other related U.S. dollar denominated net assets, primarily accrued investment income, to support these products. The change in value due to changes in foreign currency exchange rate movements, or remeasurement, of the related U.S. dollar denominated assets and liabilities associated with these products is excluded from adjusted operating income.

International Insurance

The results of our International Insurance operations are translated on the basis of weighted average monthly exchange rates, inclusive of the effects of the intercompany arrangement discussed above. To provide a better understanding of operating performance within the International Insurance segment, where indicated below, we have analyzed our results of operations excluding the effect of the year-over-year change in foreign currency exchange rates. Our results of operations excluding the effect of foreign currency fluctuations were

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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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Operating results:				
Revenues:				
Life Planner operations	$ 1,829	$ 1,596	$ 5,358	$ 4,777
Gibraltar Life	1,179	1,072	3,491	2,961
	3,008	2,668	8,849	7,738
Benefits and expenses:				
Life Planner operations	1,506	1,286	4,417	3,858
Gibraltar Life	972	882	2,959	2,490
	2,478	2,168	7,376	6,348
Adjusted operating income:				
Life Planner operations	323	310	941	919
Gibraltar Life	207	190	532	471
	530	500	1,473	1,390
Realized investment gains (losses), net, and related adjustments(1)	253	(164)	10	(941)
Related charges(2)	(22)	6	(15)	75
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	17	17	(34)	76
Change in experience-rated contractholder liabilities due to asset value changes(4)	(17)	(17)	34	(76)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(5)	(4)	(3)	(3)	0
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 757	$ 339	$ 1,465	$ 524

(1) Revenues exclude Realized investment gains (losses), net, and related charges and adjustments. The related charges represent payments related to the market value adjustment features of certain of our annuity products and the impact of Realized investment gains (losses), net, on the amortization of unearned revenue reserves. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.

(2)

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

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

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

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

Agreement to Acquire AIG Star Life Insurance Co., Ltd., AIG Edison Life Insurance Company and Related Entities from AIG

On September 30, 2010, Prudential Financial entered into a stock purchase agreement with American International Group, Inc., or AIG, pursuant to which Prudential Financial agreed to acquire, directly or through one or more of its subsidiaries, all of the issued and outstanding shares of preferred and common stock of AIG Star Life Insurance Co., Ltd., AIG Edison Life Insurance Company, AIG Financial Assurance Japan K.K., and AIG Edison Service Co., Ltd. for a total purchase price of $4.8 billion. The total purchase price of $4.8 billion is comprised of approximately $4.2 billion in cash and $0.6 billion in assumed third party debt, substantially all of which is expected to be repaid with excess capital of the acquired entities. All acquired entities are Japanese corporations and their businesses are in Japan. The transaction, which is expected to close in the first quarter of 2011, is subject to certain governmental approvals, including Japanese anti-competition approvals (or expirations of waiting periods) and Japanese insurance regulatory approvals, as well as other customary conditions to closing, including the execution and delivery of related transaction documents. Prudential Financial intends to make a Section 338 election under the Internal Revenue Code with respect to the acquisition.

The businesses to be acquired distribute individual life insurance, group life insurance, group annuities, medical insurance, and fixed annuities primarily through captive agents, independent agents, and banks. As of June 30, 2010, these businesses had approximately $147 billion face amount of in force individual insurance and approximately 7,700 captive agents. We anticipate the invested assets attributed to these businesses will increase invested assets of our Japanese operations by about half. The addition of these operations to our existing businesses will increase our scale in the Japanese insurance market and provide complementary distribution opportunities. We also expect these businesses to provide attractive returns primarily driven from in force business and cost synergies. We expect to integrate these businesses with our Japanese insurance operations by early 2012 for an expected pre-tax integration cost of approximately $500 million to be incurred over a five year period, including approximately $400 million during 2011 and 2012. After the integration is completed, we expect annual cost savings of approximately $250 million. Actual integration costs may exceed, and actual costs savings may fall short of, such expectations.

Acquisition of Yamato Life

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 Gibraltar Financial Life Insurance Company, Ltd.

Adjusted Operating Income

2010 to 2009 Three Month Comparison. Adjusted operating income from Life Planner operations increased $13 million, from $310 million in the third quarter of 2009 to $323 million in the third quarter of 2010, including a net favorable impact of $3 million from currency fluctuations. This increase in adjusted operating income

primarily reflects the continued growth of our Japanese Life Planner operations, partially offset by net charges of $6 million recognized in the third quarter of 2010 due to the migration to a new policy valuation system that resulted in unfavorable reserve refinements. Also impacting adjusted operating income is a $6 million less favorable benefit in the current quarter from a reduction in amortization of deferred policy acquisition costs primarily reflecting improved mortality assumptions, which benefited both periods, associated with our annual review of the estimated gross profits used to amortize deferred policy acquisition costs.

Gibraltar Life s adjusted operating income increased $17 million, from $190 million in the third quarter of 2009 to $207 million in the third quarter of 2010, including a favorable impact of $8 million from currency fluctuations. Excluding the impact of currency fluctuations and a benefit of approximately $15 million recognized in the third quarter of 2009 largely related to initial surrenders of policies following the restructuring of the acquired former business of Yamato Life, adjusted operating income increased $24 million. This increase in adjusted operating income primarily reflects favorable net investment spread due to the continued growth of our multi-currency fixed annuity products and higher contributions from other non-coupon investments.

2010 to 2009 Nine Month Comparison. Adjusted operating income from Life Planner operations increased $22 million, from $919 million in the first nine months of 2009 to $941 million in the first nine months of 2010, including a net favorable impact of $10 million from currency fluctuations. Excluding the impact of currency fluctuations and an unfavorable variance of $31 million, reflecting a net benefit of $25 million recognized in the first nine months of 2009 compared to net charges of $6 million recognized in the first nine months of 2010, from reserve refinements related to the implementation of a new policy valuation system, adjusted operating income increased $43 million. This increase primarily reflects the continued growth of our Japanese Life Planner operation, partially offset by a lower benefit in the current year from a reduction in amortization of deferred policy acquisition costs primarily reflecting improved mortality assumptions, which benefited both periods, associated with our annual review of the estimated gross profits used to amortize deferred policy acquisition costs.

Gibraltar Life s adjusted operating income increased $61 million, from $471 million in the first nine months of 2009 to $532 million in the first nine months of 2010, including a favorable impact of $18 million from currency fluctuations. Adjusted operating income for the first nine months of 2009 included net charges of $5 million related a guaranty fund assessment and net charges of $7 million from unfavorable reserve refinements related to the implementation of a new policy valuation system. Absent the effect of these items and the impact of currency fluctuations, adjusted operating income increased $31 million, primarily reflecting the continued growth in our multi-currency fixed annuity products.

Revenues

2010 to 2009 Three Month Comparison. Revenues, as shown in the table above under Operating Results, increased $340 million, from $2,668 million in the third quarter of 2009 to $3,008 million in the third quarter of 2010, including a net favorable impact of $165 million relating to currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $175 million, from $2,668 million in the third quarter of 2009 to $2,843 million in the third quarter of 2010.

Revenues from our Life Planner operations increased $233 million, from $1,596 million in the third quarter of 2009 to $1,829 million in the third quarter of 2010, including a net favorable impact of $83 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $150 million, from $1,613 million in the third quarter of 2009 to $1,763 million in the third quarter of 2010. This increase in revenues came primarily from increases in premiums and policy charges and fee income of $106 million, from $1,303 million in the third quarter of 2009 to $1,409 million in the third quarter of 2010. Premiums and policy charges and fee income from our Japanese Life Planner operation increased $81 million, from $938 million in the third quarter of 2009 to $1,019 million in the third quarter of 2010, primarily reflecting growth of business in

force and continued strong persistency. Net investment income also increased $36 million, from $280 million in the third quarter of 2009 to $316 million in the third quarter of 2010, primarily due to investment portfolio growth, partially offset by lower yields in our Japanese investment portfolio compared to the prior year quarter.

Revenues from Gibraltar Life increased $107 million, from $1,072 million in the third quarter of 2009 to $1,179 million in the third quarter of 2010, including a favorable impact of $82 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues for Gibraltar Life increased $25 million, from $1,055 million in the third quarter of 2009 to $1,080 million in the third quarter of 2010. This increase primarily reflects favorable investment income resulting from the continued growth of our multi-currency fixed annuity products and higher contributions from other non-coupon investments. These favorable variances were partially offset by a $9 million decrease in premiums, from $754 million in the third quarter of 2009 to $745 million in the third quarter of 2010. Higher first year premiums of $73 million due to stronger sales of protection products, as well as $37 million in higher sales of single premium whole life were offset by the absence of $109 million in premiums recorded in the third quarter of 2009 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. 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. This special dividend arrangement was completed in the second quarter of 2010.

2010 to 2009 Nine Month Comparison. Revenues increased $1,111 million, from $7,738 million in the first nine months of 2009 to $8,849 million in the first nine months of 2010, including a net favorable impact of $434 million relating to currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $677 million, from $7,810 million in the first nine months of 2009 to $8,487 million in the first nine months of 2010.

Revenues from our Life Planner operations increased $581 million, from $4,777 million in the first nine months of 2009 to $5,358 million in the first nine months of 2010, including a net favorable impact of $240 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $341 million, from $4,900 million in the first nine months of 2009 to $5,241 million in the first nine months of 2010. This increase in revenues came primarily from increases in premiums and policy charges and fee income of $231 million, from $4,015 million in the first nine months of 2009 to $4,246 million in the first nine months of 2010. Premiums and policy charges and fee income from our Japanese Life Planner operation increased $167 million, from $2,932 million in the first nine months of 2009 to $3,099 million in the first nine months of 2010, primarily reflecting growth of business in force and continued strong persistency, partially offset by a benefit recognized in the prior year from the migration to a new policy valuation system discussed above. Net investment income also increased $91 million, from $808 million in the first nine months of 2009 to $899 million in the first nine months of 2010, primarily due to investment portfolio growth, partially offset by lower yields in our Japanese investment portfolio compared to the prior year.

Revenues from Gibraltar Life increased $530 million, from $2,961 million in the first nine months of 2009 to $3,491 million in the first nine months of 2010, including a favorable impact of $194 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues for Gibraltar Life increased $336 million, from $2,910 million in the first nine months of 2009 to $3,246 million in the first nine months of 2010. This increase reflects a $282 million increase in premiums, from $2,021 million in the first nine months of 2009 to $2,303 million in the first nine months of 2010, as premiums benefited from $49 million of renewal premiums from the acquisition of Yamato, higher first year premiums of $153 million due to stronger sales of protection products, as well as $122 million in higher sales of single premium whole life. Partially offsetting these favorable variances in premiums was a decrease of $46 million, reflecting the completion of the special dividend arrangement in the second quarter of 2010, established as part of Gibraltar Life s reorganization in 2001. Substantially all of the premiums recognized as additional face amounts of insurance issued pursuant to the special dividend arrangement were offset by a corresponding charge to increase reserves for the affected policies. Also contributing to the increase in revenues is favorable investment income reflecting the continued growth of our multi-currency fixed annuity products.

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 the three months ended September 30, 2010 and 2009, we recognized gains of $10 million and $7 million, respectively, and for the nine months ended September 30, 2010 and 2009, we recognized gains of $27 million and $20 million, respectively, in adjusted operating income related to these realized investment gains. As of September 30, 2010, $723 million of deferred gains remain to be recognized in adjusted operating income over a weighted average period of 30 years. We continue to manage the interest rate risk profile of our businesses in the context of market conditions and relative opportunities, and will implement these hedging strategies to lengthen the duration of our Japanese portfolio as our assessment of market conditions dictates. As we do so, the impact to our portfolio yields will depend on the then current interest rate environment.

Benefits and Expenses

2010 to 2009 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $310 million, from $2,168 million in the third quarter of 2009 to $2,478 million in the third quarter of 2010, including a net unfavorable impact of $154 million related to currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $156 million, from $2,137 million in the third quarter of 2009 to $2,293 million in the third quarter of 2010.

Benefits and expenses of our Life Planner operations increased $220 million, from $1,286 million in the third quarter of 2009 to $1,506 million in the third quarter of 2010, including a net unfavorable impact of $80 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $140 million, from $1,289 million in the third quarter of 2009 to $1,429 million in the third quarter of 2010. Benefits and expenses of our Japanese Life Planner operation increased $116 million, from $874 million in the third quarter of 2009 to $990 million in the third quarter of 2010, primarily reflecting an increase in policyholder benefits due to changes in reserves, which was driven by the growth in business in force. Higher amortization of deferred policy acquisition costs reflect the impact of unfavorable refinements related to the implementation of a new policy valuation system and the lower benefit in the current quarter associated with our annual review of the estimated gross profits used to amortize deferred policy acquisition costs discussed above.

Gibraltar Life s benefits and expenses increased $90 million, from $882 million in the third quarter of 2009 to $972 million in the third quarter of 2010, including an unfavorable impact of $74 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $16 million, from $848 million in the third quarter of 2009 to $864 million in the third quarter of 2010. The increase in benefits and expenses was driven by the continued growth of our multi-currency fixed annuity product, partially offset by a $6 million decrease in policyholder benefits, including changes in reserves, as higher single premium whole life sales in the third quarter of 2010 was more than offset by the effects of the special dividend arrangement discussed above.

2010 to 2009 Nine Month Comparison. Benefits and expenses increased $1,028 million, from $6,348 million in the first nine months of 2009 to $7,376 million in the first nine months of 2010, including a net unfavorable impact of $406 million related to currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $622 million, from $6,336 million in the first nine months of 2009 to $6,958 million in the first nine months of 2010.

Benefits and expenses of our Life Planner operations increased $559 million, from $3,858 million in the first nine months of 2009 to $4,417 million in the first nine months of 2010, including a net unfavorable impact

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of $230 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $329 million, from $3,949 million in the first nine months of 2009 to $4,278 million in the first nine months of 2010. Benefits and expenses of our Japanese Life Planner operation increased $243 million, from $2,742 million in the first nine months of 2009 to $2,985 million in the first nine months of 2010, primarily reflecting an increase in policyholder benefits due to changes in reserves, which was driven by the growth in business in force. Included in general and administrative expenses for the Life Planner operations is $2 million of expenses, a decrease of $3 million from the prior year, 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 $469 million, from $2,490 million in the first nine months of 2009 to $2,959 million in the first nine months of 2010, including an unfavorable impact of $176 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $293 million, from $2,387 million in the first nine months of 2009 to $2,680 million in the first nine months of 2010. This reflects an increase in policyholder benefits, including changes in reserves, of $227 million reflecting higher single premium whole life sales in the first nine months of 2010 and the acquisition of Yamato, offset by the effects of the special dividend arrangement discussed above. Also contributing to the increase in benefits and expenses is higher amortization of deferred policy acquisition costs related to the continued growth of our multi-currency fixed annuity products and the increase in single premium whole life sales, as well as higher general and administrative expenses. Included in general and administrative expenses for Gibraltar Life is $15 million of expenses, an increase of $8 million from the prior year, 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 continue to estimate that we will incur approximately $30 million of non-capitalizable costs in 2010 related to our on-going initiative in Japan to enhance our information processes and technology systems, as discussed above, which will predominately impact Gibraltar Life and, to a lesser extent, our Japanese Life Planner operation.

Sales Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Annualized new business premiums:				
On an actual exchange rate basis:				
Life Planner operations	$ 242	$ 205	$ 688	$ 606
Gibraltar Life	234	149	618	409
Total	$ 476	$ 354	$ 1,306	$ 1,015
On a constant exchange rate basis:				
Life Planner operations	$ 231	$ 208	$ 668	$ 623
Gibraltar Life	218	149	585	406

Total	$ 449	$ 357	$ 1,253	$ 1,029

2010 to 2009 Three Month Comparison. On a constant exchange rate basis, annualized new business premiums increased $92 million, from $357 million in the third quarter of 2009 to $449 million in the third quarter of 2010.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased $23 million, primarily due to higher sales of retirement income products in Japan.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operation increased $69 million, primarily due to higher sales of protection products in our bank distribution channels and sales related to a recently introduced cancer whole life product, a portion of which were sold through other complementary distribution channels.

2010 to 2009 Nine Month Comparison. On a constant exchange rate basis, annualized new business premiums increased $224 million, from $1,029 million in the first nine months of 2009 to $1,253 million in the first nine months of 2010.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased $45 million, primarily due to higher sales of retirement income and cancer whole life products in Japan.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operation increased $179 million, primarily due to higher sales of protection products in our bank distribution channels and sales related to a recently introduced cancer whole life product, a portion of which were sold through other complementary distribution channels.

The number of Life Planners increased by 124, or 2%, from 6,484 as of September 30, 2009 to 6,608 as of September 30, 2010, driven by increases of 83 in Japan, 49 in Italy, 37 in Korea, and 29 in Brazil. Over the past twelve months, we transferred 79 Japanese Life Planners to Gibraltar, primarily in support of our efforts to expand our bank channel distribution and to service orphaned policyholders. Factoring in these transfers, the number of Life Planners would have increased 3%, from September 30, 2009 to September 30, 2010. Prior to September 30, 2009, an additional 303 Japanese Life Planners were transferred to Gibraltar.

The number of Life Advisors decreased by 147, from 6,060 as of September 30, 2009 to 5,913 as of September 30, 2010, as new hires, including 23 Life Planners transferred to Gibraltar as Life Advisors over the last twelve months, were offset by resignations and terminations due in part to failure to meet minimum sales production standards. The remaining Life Planners transferred to Gibraltar, as discussed above, are not considered Life Advisors.

Investment Margins and Other Profitability Factors

Many of our insurance products sold in international markets provide for the buildup of cash values for the policyholder at mandated guaranteed interest rates. Authorities in some jurisdictions regulate interest rates guaranteed in our insurance contracts. The regulated guaranteed interest

rates do not necessarily match the actual returns on the underlying investments. The spread between the actual investment returns and these guaranteed rates of return to the policyholder is an element of the profit or loss that we will experience on these products. With regulatory approval, guaranteed rates may be changed on new business. While these actions enhance our ability to set rates commensurate with available investment returns, the major sources of profitability on our products sold in Japan, other than those sold by Gibraltar Life, are margins on mortality, morbidity and expense charges rather than investment spreads.

We base premiums and cash values in most countries in which we operate on mandated mortality and morbidity tables. Our mortality and morbidity experience in the International Insurance segment on an overall basis in the first nine months of 2010 and 2009 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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Operating results:				
Revenues	$ 84	$ 74	$ 256	$ 225
Expenses	83	67	224	200
Adjusted operating income	1	7	32	25
Realized investment gains (losses), net, and related adjustments(1)	(5)	(6)	(4)	(7)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(2)	(11)	(11)	(31)	(30)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (15)	$ (10)	$ (3)	$ (12)

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

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

In 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. As a result, we have reflected results of our Korean asset management operations as discontinued operations for all periods presented. This transaction closed on June 1, 2010. We recorded an after-tax loss on the sale of $5 million, which is also reflected in discontinued operations.

On May 25, 2009, we entered into an agreement with the 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 $14 million, which is also reflected in discontinued operations. This transaction did not include our insurance business, our pension fund business or our real estate investments that are located in Mexico.

Adjusted Operating Income

2010 to 2009 Three Month Comparison. Adjusted operating income decreased $6 million, from $7 million in the third quarter of 2009 to $1 million in the third quarter of 2010. Results in the third quarter of 2010 reflect a $15 million write-down of software technology in the segment s global commodities group. Excluding this item, adjusted operating income increased in the third quarter of 2010, as compared to the third quarter of 2009, reflecting more favorable sales and trading results in the segment s global commodities group and higher asset based fees from the segment s asset management businesses.

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2010 to 2009 Nine Month Comparison. Adjusted operating income increased $7 million, from $25 million in the first nine months of 2009 to $32 million in the first nine months of 2010. The increase in adjusted operating income primarily reflects improved results from the segment s global commodities group due to more favorable sales and trading results, partially offset by a write-down of software technology in the first nine months of 2010. Also contributing to the increase in adjusted operating income was higher asset based fees from the segment s asset management businesses.

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.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Operating results:				
Corporate Operations:				
Net investment income, net of interest expense, excluding capital debt interest expense	$ (17)	$ (16)	$ (45)	$ (32)
Capital debt interest expense	(142)	(126)	(414)	(362)
Pension income and employee benefits	61	72	158	172
Other corporate activities(1)	(181)	(139)	(361)	(299)
Total Corporate Operations	(279)	(209)	(662)	(521)
Real Estate and Relocation Services	19	6	22	(54)
Adjusted operating income	(260)	(203)	(640)	(575)
Realized investment gains (losses), net, and related adjustments(2)	(111)	(120)	(108)	23
Related charges(3)	(3)	(1)	5	8
Divested businesses(4)	(32)	25	(46)	(31)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(5)	(7)	(38)	(16)	(9)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (413)	$ (337)	$ (805)	$ (584)

(1) Includes consolidating adjustments.
(2) Revenues exclude Realized investment gains (losses), net, and related adjustments. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.
(3) Benefits and expenses exclude related charges which represent consolidating adjustments.
(4) See Divested Businesses.

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

In the third quarter of 2010, we amended our definition of adjusted operating income to exclude the net impact of embedded derivatives related to our living benefit features and related hedge positions as well as market value changes of derivatives used in our capital hedge program. Adjusted operating income for all periods presented has been revised to conform with the amended definition. See Consolidated Results of Operations Segment Measures for additional information.

2010 to 2009 Three Month Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, increased $57 million, from $203 million in the third quarter of 2009 to $260 million in the third quarter of 2010. The loss from corporate operations increased $70 million, from $209 million in the third quarter of 2009 to $279 million in the third quarter of 2010. Capital debt interest expense increased $16 million due to a greater level of capital debt, which includes the issuance in September 2009 of $500 million of exchangeable surplus notes, and the deployment of additional corporate borrowings for capital purposes. Investment income, net of interest expense, excluding capital debt interest expense, decreased $1 million. Higher levels of short-term liquidity have been maintained throughout 2009 and into 2010 to provide additional flexibility to address our cash needs in view of changing financial market conditions. The need to hold higher levels of short-term liquidity, coupled with a portion of the proceeds from the sale at the end of 2009 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. We currently intend to use a portion of this cash and short-term investments to partially fund the purchase price related to our recently announced agreement to acquire AIG Star Life Insurance Co., AIG Edison Life Insurance Company and related entities from AIG. See Liquidity and Capital Resources for additional details. Also contributing to the greater loss from corporate operations in the third quarter of 2010 compared to the prior year period are greater net charges from other corporate activities, primarily reflecting less favorable results from our corporate hedging activities, including our foreign currency earnings program, and increased corporate advertising expenses. Corporate operations results were also negatively impacted by the net change in our deferred compensation liabilities and 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.

Results from corporate operations pension income and employee benefits decreased $11 million. The decrease reflects increases in employee benefits costs partially offset by an increase in income from our qualified pension plan. Income from our qualified pension plan increased $3 million, from $77 million in the third quarter of 2009 to $80 million in the third quarter of 2010.

Adjusted operating income of our real estate and relocation services business increased $13 million, from $6 million in the third quarter of 2009 to $19 million in the third quarter of 2010. The increase in adjusted operating income reflects higher revenues in our relocation services business as well as lower operating expenses in 2010 compared to the prior year period.

2010 to 2009 Nine Month Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, increased $65 million, from $575 million in the first nine months of 2009 to $640 million in the first nine months of 2010. The loss from corporate operations increased $141 million, from $521 million in the first nine months of 2009 to $662 million in the first nine months of 2010. Capital debt interest expense

increased $52 million due to a greater level of capital debt, which includes the issuance in September 2009 of $500 million of exchangeable surplus notes, and reflects the use of a portion of the proceeds from prior sales of retail medium-term notes for general corporate purposes beginning in the second quarter of 2009, as well as the deployment of additional corporate borrowings for capital purposes. Investment income, net of interest expense, excluding capital debt interest expense, decreased $13 million. Higher levels of short-term liquidity have been maintained throughout 2009 and into 2010 to provide additional flexibility to address our cash needs in view of changing financial market conditions. The need to hold higher levels of short-term liquidity, coupled with a portion of the proceeds from the sale at the end of 2009 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. We currently intend to use a portion of this cash and short-term investments to partially fund the purchase price related to our recently announced agreement to acquire AIG Star Life Insurance Co., AIG Edison Life Insurance Company and related entities from AIG. See Liquidity and Capital Resources for additional details. Net investment income, net of interest expense, excluding capital debt interest expense was also impacted by our repurchase of substantially all of our convertible senior notes during 2009. Also contributing to the greater loss from corporate operations in the first nine months of 2010 compared to the prior year period are greater net charges from other corporate activities, primarily reflecting less favorable results from corporate hedging activities, including our foreign currency earnings program, and increased corporate advertising expenses.

Results from corporate operations pension income and employee benefits decreased $14 million. The decrease reflects increases in employee benefits costs partially offset by an increase in income from our qualified pension plan. Income from our qualified pension plan increased $9 million, from $231 million in the first nine months of 2009 to $240 million in the first nine months of 2010.

Adjusted operating income of our real estate and relocation services business increased $76 million, from a loss of $54 million in the first nine months of 2009 to income of $22 million in the first nine months of 2010. The increase in adjusted operating income reflects higher transaction volume and higher average sales prices, as well as lower operating expenses in 2010 compared to the prior year period. In addition, results in the first nine months of 2009 include our share of the earnings from equity method investments, which included goodwill impairments recorded in 2009 within these entities.

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 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.

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As of September 30, 2010, the Company did not recognize a cumulative earnings policyholder dividend obligation since actual cumulative earnings were below the expected cumulative earnings by $64 million. 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. However, net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of $3.149 billion at September 30, 2010, to be paid to Closed Block policyholders unless offset by future experience, with an offsetting amount reported in Accumulated other comprehensive income (loss).

Operating Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
U.S. GAAP results:				
Revenues	$ 1,592	$ 1,548	$ 5,402	$ 3,513
Benefits and expenses	1,478	1,564	4,625	4,085
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 114	$ (16)	$ 777	$ (572)

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

2010 to 2009 Three Month Comparison. Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures increased $130 million, from a loss of $16 million in the third quarter of 2009 to income of $114 million in the third quarter of 2010. Results for 2010 include an increase of $92 million in net realized investment gains (losses), from losses of $27 million in the third quarter of 2009 to gains of $65 million in the third quarter of 2010, primarily due to lower impairments and credit losses, as well as gains on sales of fixed maturities, partially offset by 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, increased $12 million, primarily due to an increase in income on joint ventures and limited partnership investments accounted for under the equity method, partially offset by lower portfolio yields. In addition, dividends paid and accrued to policyholders decreased $59 million primarily due to a decrease in the 2010 dividend scale. In both the third quarter of 2010 and the third quarter of 2009, the cumulative earnings policyholder dividend obligation was zero, and therefore, did not impact earnings in either period. As noted above, as of September 30, 2010 actual cumulative earnings are below the expected cumulative earnings by $64 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.

2010 to 2009 Nine Month Comparison. Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures increased $1.349 billion, from a loss of $572 million in the first nine months of 2009 to income of $777 million in the first nine months of 2010. Results for 2010 include an increase of $2.079 billion in net realized investment gains (losses), from losses of $1.319 billion in the first nine months of 2009 to gains of $760 million in the first nine months of 2010, primarily due to lower impairments and

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credit losses, as well as a net increase 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, increased $51 million, primarily due to an increase in income on joint ventures and limited partnership investments accounted for under the equity method, partially offset by lower portfolio yields. In addition, dividends paid and accrued to policyholders decreased $184 million primarily due to a decrease in the 2010 dividend scale. In the first nine months of 2010, the cumulative earnings policyholder dividend obligation was zero, and did not impact earnings in the period, while the first nine months of 2009 reflected a benefit of $851 million from the change in the cumulative earnings policyholder dividend obligation.

Revenues

2010 to 2009 Three Month Comparison. Revenues, as shown in the table above under Operating Results, increased $44 million, from $1.548 billion in the third quarter of 2009 to $1.592 billion in the third quarter of 2010, principally driven by the $92 million increase in net realized investment gains (losses) and an increase of $12 million in net investment income, as discussed above. Partially offsetting these items was a decline in premiums, with a related decrease in changes in reserves, primarily due to a lower amount of dividends available for policyholders to purchase additional insurance, as a result of the 2010 dividend scale reduction, and to a lesser extent, the expected in force decline as policies terminate.

2010 to 2009 Nine Month Comparison. Revenues increased $1.889 billion, from $3.513 billion in the first nine months of 2009 to $5.402 billion in the first nine months of 2010, principally driven by the $2.079 billion increase in net realized investment gains (losses) and an increase of $53 million in net investment income, as discussed above. Partially offsetting these items was a decline in premiums, with a related decrease in changes in reserves, primarily due to a lower amount of dividends available for policyholders to purchase additional insurance, as a result of the 2010 dividend scale reduction, and to a lesser extent, the expected in force decline as policies terminate.

Benefits and Expenses

2010 to 2009 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, decreased $86 million, from $1.564 billion in the third quarter of 2009 to $1.478 billion in the third quarter of 2010. The decrease reflects a decline in dividends paid and accrued to policyholders of $59 million, primarily due to a decrease in the 2010 dividend scale. Policyholders benefits, including changes in reserves, decreased $28 million driven by a decline in premiums, as discussed above.

2010 to 2009 Nine Month Comparison. Benefits and expenses increased $540 million, from $4.085 billion in the first nine months of 2009 to $4.625 billion in the first nine months of 2010, primarily due to an $851 million reduction in the cumulative earnings policyholder dividend obligation during the first nine months of 2009. In the first nine months of 2010, there was no change in benefits and expenses from the cumulative earnings policyholder dividend obligation since actual cumulative earnings were below expected cumulative earnings. This increase was partially offset by a decrease in dividends paid and accrued to policyholders of $184 million, primarily due to a decrease in the 2010 dividend scale. Policyholders benefits, including changes in reserves, decreased $171 million driven by a decline in premiums, as discussed above.

Income Taxes

Our income tax provision amounted to an income tax expense of $520 million in the third quarter of 2010 compared to a benefit of $153 million in the third quarter of 2009. 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 from the third quarter of 2009 to the third quarter of 2010. In addition, the income tax benefit in the third quarter of 2009 included a reduction to the liability for unrecognized tax benefits and interest

of $156 million primarily related to tax years prior to 2002 as a result of the expiration of the statute of limitations for the 2003 tax year, additional interest on a tax refund received related to the 1997 through 2001 tax years, and changes in estimates. In addition, income tax expense in the third quarter of 2010 includes a charge of $12 million to reflect a portion of our compensation expense that would not be deductible pursuant to the new provision under the Healthcare Act.

Our income tax provision amounted to an income tax expense of $1,306 million in the first nine months of 2010 compared to a benefit of $318 million in the first nine months of 2009. 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 from the first nine months of 2009 to the first nine months of 2010. In addition, the income tax benefit in the first nine months of 2009 included a reduction to the liability for unrecognized tax benefits and interest of $307 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, additional interest on a tax refund received related to the 1997 through 2001 tax years, and changes in estimates. In addition, income tax expense for the first nine months of 2010 includes a charge for the reduction of deferred tax assets in the amount of $94 million related to the Medicare Part D subsidy and a charge of $12 million to reflect a portion of our compensation expense that would not be deductible pursuant to the new provision under the Healthcare Act.

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

For additional information regarding income taxes, see Note 12 to the Unaudited Interim 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 (loss) from discontinued operations, net of taxes, was $8 million and $0 million for the three months ended September 30, 2010 and 2009, respectively, and $6 million and $26 million for the nine months ended September 30, 2010 and 2009, respectively.

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

Divested Businesses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			

Property and Casualty insurance	$ (27)	$ 1	$ (30)	$ 3
Financial Advisory	(7)	22	(15)	(18)
Commercial mortgage securitization operations	0	0	0	(13)
Other	2	2	(1)	(3)
Total divested businesses excluded from adjusted operating income	$ (32)	$ 25	$ (46)	$ (31)

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. 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 arrangements. 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.

Investment Gains and Losses on Trading Account Assets Supporting Insurance Liabilities and

Changes in Experience-Rated Contractholder Liabilities Due to Asset Value Changes

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

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

Results for the three months ended September 30, 2010 and 2009 include the recognition of net investment gains of $388 million and $694 million, respectively, and for the nine months ended September 30, 2010 and 2009 include the recognition of net investment gains of $719 million and $1,525 million, respectively, on Trading account assets supporting insurance liabilities, at fair value. These net investment gains primarily represent interest-rate related mark-to-market adjustments, which include the impact of changes in credit spreads on fixed maturity securities. In addition, results for the three months ended September 30, 2010 and 2009 include net investment losses of $50 million and gains of $13 million, respectively, and for the nine months ended September 30, 2010 and 2009 include net investment gains of $36 million and losses of $104 million, respectively, related to changes in the fair value of derivatives that support these experience-rated products. Consistent with our treatment of Realized investment gains (losses), net, these gains and losses, which are expected to ultimately accrue to the contractholders, are excluded from adjusted operating income. In addition, results for the three months ended September 30, 2010 and 2009 include increases of $367 million and $458 million, respectively, and for the nine months ended September 30, 2010 and 2009 include increases of $831 million and $850 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 net of the increase in contractholder liabilities due to these asset valuation changes resulted in

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net losses of $29 million and net gains of $249 million for the three months ended September 30, 2010 and 2009, respectively, and net losses of $76 million and net gains of $571 million for the nine months ended September 30, 2010 and 2009, respectively. This primarily reflects timing differences between the recognition of the interest-rate related mark-to-market adjustments and the recognition of the recovery of these mark-to-market adjustments in future periods through subsequent increases in asset values or reductions in crediting rates on contractholder liabilities. Decreases to these contractholder liabilities due to asset value changes are limited by certain floors and therefore do not reflect cumulative declines in recorded asset values of $9 million and $49 million as of September 30, 2010 and 2009, respectively. We have recovered and expect to recover in future periods these declines in recorded asset values through subsequent increases in recorded asset values or reductions in crediting rates on contractholder liabilities.

In addition, as prescribed by U.S. GAAP, changes in the fair value of commercial mortgage and other loans held in our general account, other than when associated with impairments, are not recognized in income in the current period, while the impact of these changes in value are reflected as a change in the liability to fully participating contractholders in the current period. Included in the amounts above related to the change in the liability to contractholders as a result of commercial mortgage and other loans are increases of $37 million and $38 million, for the three months ended September 30, 2010 and 2009, respectively, and increases of $115 million and $78 million for the nine months ended September 30, 2010 and 2009, respectively.

Valuation of Assets and Liabilities

Fair Value of Assets and Liabilities

The authoritative guidance related to fair value established a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. See Note 13 to the Unaudited Interim Consolidated Financial Statements for a description of these levels.

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The tables below present the balances of assets and liabilities measured at fair value on a recurring basis, as of September 30, 2010 and December 31, 2009, split between the Financial Services Businesses and Closed Block Business, by fair value hierarchy level. See Note 13 to the Unaudited Interim Consolidated Financial Statements for the balances of assets and liabilities measured at fair value on a recurring basis presented on a consolidated basis.

	Financial Services Businesses as of September 30, 2010				
	Level 1	Level 2	Level 3(1) (in millions)	Netting(2)	Total
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 5,466	$ 0	$	$ 5,466
Obligations of U.S. states and their political subdivisions	0	1,357	0		1,357
Foreign government bonds	0	49,130	16		49,146
Corporate securities	5	71,437	470		71,912
Asset-backed securities	0	5,546	1,320		6,866
Commercial mortgage-backed securities	0	8,294	143		8,437
Residential mortgage-backed securities	0	8,022	21		8,043
Subtotal	5	149,252	1,970		151,227
Trading account assets supporting insurance liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	245	0		245
Obligations of U.S. states and their political subdivisions	0	175	0		175
Foreign government bonds	0	553	0		553
Corporate securities	0	10,407	42		10,449
Asset-backed securities	0	780	176		956
Commercial mortgage-backed securities	0	2,267	5		2,272
Residential mortgage-backed securities	0	1,275	19		1,294
Equity securities	794	231	4		1,029
Short-term investments and cash equivalents	624	153	0		777
Subtotal	1,418	16,086	246		17,750
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	244	0		244
Obligations of U.S. states and their political subdivisions	0	113	0		113
Foreign government bonds	2	24	0		26
Corporate securities	8	158	31		197
Asset-backed securities	0	605	55		660
Commercial mortgage-backed securities	0	84	18		102
Residential mortgage-backed securities	0	166	20		186
Equity securities	312	142	28		482
All other activity	91	11,249	203	(8,041)	3,502
Subtotal	413	12,785	355	(8,041)	5,512
Equity securities, available for sale	947	2,759	315		4,021
Commercial mortgage and other loans	0	89	308		397
Other long-term investments(4)	42	137	756		935
Short-term investments	2,952	1,444	0		4,396
Cash equivalents	1,839	5,750	0		7,589
Other assets	1,743	240	10		1,993
Subtotal excluding separate account assets	9,359	188,542	3,960	(8,041)	193,820

Separate account assets(3)	38,674	141,047	14,742		194,463
Total assets	$ 48,033	$ 329,589	$ 18,702	$ (8,041)	$ 388,283
Future policy benefits	$ 0	$ 0	$ 1,291	$	$ 1,291
Long-term debt	0	0	0		0
Other liabilities	30	7,721	(2)	(7,060)	689
Total liabilities	$ 30	$ 7,721	$ 1,289	$ (7,060)	$ 1,980

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	Closed Block Business as of September 30, 2010				
	Level 1	Level 2	Level 3(1)	Netting(2)	Total
			(in millions)		
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 5,693	$ 0	$	$ 5,693
Obligations of U.S. states and their political subdivisions	0	680	0		680
Foreign government bonds	0	703	16		719
Corporate securities	0	28,801	267		29,068
Asset-backed securities	0	3,266	363		3,629
Commercial mortgage-backed securities	0	3,886	0		3,886
Residential mortgage-backed securities	0	2,284	3		2,287
Subtotal	0	45,313	649		45,962
Trading account assets supporting insurance liabilities	0	0	0		0
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	0	0		0
Obligations of U.S. states and their political subdivisions	0	0	0		0
Foreign government bonds	0	0	0		0
Corporate securities	0	124	0		124
Asset-backed securities	0	33	5		38
Commercial mortgage-backed securities	0	0	0		0
Residential mortgage-backed securities	0	0	0		0
Equity securities	2	0	0		2
All other activity	0	0	0	0	0
Subtotal	2	157	5	0	164
Equity securities, available for sale	3,057	162	32		3,251
Commercial mortgage and other loans	0	0	0		0
Other long-term investments	0	12	0		12
Short-term investments	1,028	3	0		1,031
Cash equivalents	128	810	0		938
Other assets	0	120	11		131
Subtotal excluding separate account assets	4,215	46,577	697	0	51,489
Separate account assets(3)	0	0	0		0
Total assets	$ 4,215	$ 46,577	$ 697	$ 0	$ 51,489
Future policy benefits	$ 0	$ 0	$ 0	$	$ 0
Long-term debt	0	0	0		0
Other liabilities	0	0	4	0	4
Total liabilities	$ 0	$ 0	$ 4	$ 0	$ 4

(1) The amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 5% and 1% 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 2% for our Financial Services Businesses. The amount of Level 3 liabilities was immaterial to our balance sheet.

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

(3) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by us with respect to certain accounts. Separate account assets classified as Level 3

consist primarily of real estate and real estate investment funds. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in our Unaudited Interim Consolidated Statement of Financial Position.

	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	$ 0	$ 4,623	$ 0	$	$ 4,623
Obligations of U.S. states and their political subdivisions	0	789	0		789
Foreign government bonds	0	41,326	31		41,357
Corporate securities	5	62,459	534		62,998
Asset-backed securities	0	2,895	3,753		6,648
Commercial mortgage-backed securities	0	7,051	305		7,356
Residential mortgage-backed securities	0	8,823	100		8,923
Subtotal	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	0	128	0		128
Obligations of U.S. states and their political subdivisions	0	31	0		31
Foreign government bonds	0	517	0		517
Corporate securities	0	9,419	83		9,502
Asset-backed securities	0	576	281		857
Commercial mortgage-backed securities	0	1,888	5		1,893
Residential mortgage-backed securities	0	1,412	20		1,432
Equity securities	700	232	3		935
Short-term investments and cash equivalents	338	387	0		725
Subtotal	1,038	14,590	392		16,020
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	95	0		95
Obligations of U.S. states and their political subdivisions	0	0	0		0
Foreign government bonds	1	23	0		24
Corporate securities	16	187	34		237
Asset-backed securities	0	867	84		951
Commercial mortgage-backed securities	0	109	27		136
Residential mortgage-backed securities	0	146	12		158
Equity securities	306	136	24		466
All other activity	37	4,707	297	(4,242)	799
Subtotal	360	6,270	478	(4,242)	2,866
Equity securities, available for sale	854	2,589	367		3,810
Commercial mortgage and other loans	0	114	338		452
Other long-term investments	36	5	498		539
Short-term investments	2,544	2,510	0		5,054
Cash equivalents	5,502	3,939	0		9,441
Other assets	2,391	62	16		2,469
Subtotal excluding separate account assets	12,730	158,045	6,812	(4,242)	173,345
Separate account assets(3)	33,641	127,381	13,052		174,074
Total assets	$ 46,371	$ 285,426	$ 19,864	$ (4,242)	$ 347,419
Future policy benefits	$ 0	$ 0	$ 55	$	$ 55
Long-term debt	0	0	429		429
Other liabilities	0	4,764	6	(3,841)	929
Total liabilities	$ 0	$ 4,764	$ 490	$ (3,841)	$ 1,413

	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	$ 0	$ 3,645	$ 0	$	$ 3,645
Obligations of U.S. states and their political subdivisions	0	586	0		586
Foreign government bonds	0	681	16		697
Corporate securities	0	27,335	368		27,703
Asset-backed securities	0	980	2,610		3,590
Commercial mortgage-backed securities	0	3,662	0		3,662
Residential mortgage-backed securities	0	2,644	4		2,648
Subtotal	0	39,533	2,998		42,531
Trading account assets supporting insurance liabilities	0	0	0		0
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	0	0		0
Obligations of U.S. states and their political subdivisions	0	0	0		0
Foreign government bonds	0	0	0		0
Corporate securities	0	122	0		122
Asset-backed securities	0	27	13		40
Commercial mortgage-backed securities	0	0	0		0
Residential mortgage-backed securities	0	0	0		0
Equity Securities	5	0	0		5
All other activity	0	0	0	0	0
Subtotal	5	149	13	0	167
Equity securities, available for sale	2,901	158	26		3,085
Commercial mortgage and other loans	0	0	0		0
Other long-term investments	0	61	0		61
Short-term investments	1,017	321	0		1,338
Cash equivalents	169	529	0		698
Other assets	0	114	11		125
Subtotal excluding separate account assets	4,092	40,865	3,048	0	48,005
Separate account assets(3)	0	0	0		0
Total assets	$ 4,092	$ 40,865	$ 3,048	$ 0	$ 48,005
Future policy benefits	$ 0	$ 0	$ 0	$	$ 0
Long-term debt	0	0	0		0
Other liabilities	0	0	0	0	0
Total liabilities	$ 0	$ 0	$ 0	$ 0	$ 0

(1) The amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 6% and 6% 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 4% for the Financial Services Businesses. The amount of Level 3 liabilities was immaterial to our balance sheet.

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

(3) Separate account assets represent segregated funds that are invested for certain customers. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by us with respect to certain accounts. Separate account assets classified as Level 3

consist primarily of real estate and real estate investment funds. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in our Unaudited Interim Consolidated Statement of Financial Position.

For additional information regarding the balances of assets and liabilities measured at fair value by hierarchy level see Note 13 to the Unaudited Interim Consolidated Financial Statements.

The determination of fair value, which for certain assets and liabilities is dependent on the application of estimates and assumptions, can have a significant impact on our results of operations. As discussed in more detail below, the determination of fair value for certain assets and liabilities may require the application of a greater degree of judgment depending on market conditions, as the ability to value assets and liabilities can be significantly impacted by a decrease in market activity or a lack of transactions executed in an orderly manner. For a description of the key estimates and assumptions used in our determination of fair value, see Note 13 to the Unaudited Interim Consolidated Financial Statements. The following sections provide additional information regarding certain assets and liabilities of our Financial Services Businesses and our Closed Block Business which are valued using Level 3 inputs and could have a significant impact on our results of operations. Information regarding Separate Account Assets is excluded as the risk of assets for these categories is primarily borne by our customers and policyholders.

Fixed Maturity and Equity Securities

Public fixed maturity securities included in Level 3 in our fair value hierarchy are generally priced based on internally developed valuations or non-binding broker quotes. Despite the dislocated markets and low levels of liquidity in recent years, 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 and, accordingly, such securities are 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. We reported fair values for these asset-backed securities collateralized by sub-prime mortgages as of December 31, 2009 based on our determination that the market for these securities for the period 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, asset-backed securities collateralized by sub-prime mortgages were included in Level 3 as of December 31, 2009.

Beginning in the second quarter of 2010, we observed an increasingly active market, as evidence of orderly transactions in asset-backed securities collateralized by sub-prime mortgages became more apparent. Additionally, the valuation based on the pricing we received from independent pricing services was not materially different from our internal estimates of current market value for these securities. As a result, where third party pricing information based on the observable inputs was used to fair value the security, and based on the assessment that the market has been increasingly active, we have reported the fair values for these asset-backed securities collateralized by sub-prime mortgages in Level 2 since June 30, 2010. As of September 30, 2010, the fair values of these securities included in Level 2 were $4,839 million. Transfers out of Level 3 into Level 2 totaled $5,196 million for the nine months ended September 30, 2010 relating to this change.

Excluding these asset-backed securities collateralized by sub-prime mortgages, Level 3 fixed maturity securities included approximately $1.8 billion as of September 30, 2010 and $1.1 billion as of December 31, 2009 of public fixed maturities, with values primarily based on non-binding broker-quotes, and approximately $1.2 billion as of September 30, 2010 and $1.5 billion as of December 31, 2009 of private fixed maturities, with

values primarily based on internally-developed models. Significant unobservable inputs used included: issue specific credit adjustments, material non-public financial information, management judgment, estimation of future earnings and cash flows, default rate assumptions, liquidity assumptions and non-binding quotes from market makers. These inputs are usually considered unobservable, as not all market participants will have access to this data.

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 is 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), a separate component of equity. Our investments classified as held to maturity are carried at amortized cost.

Other Long-Term Investments

The fair value of real estate held in consolidated investment funds is determined through an independent appraisal process. The appraisals generally utilize a discounted cash flow model, following an income approach that incorporates various assumptions including rental revenue, operating expenses and discount rates. The appraisals also include replacement cost estimates and recent sales data as alternate methods of fair value. These appraisals and the related assumptions are updated at least annually, and incorporate historical property experience and any observable market data, including any market transactions. Since many of the assumptions utilized are unobservable and are considered to be significant inputs to the valuation, the real estate investments within other long-term investments have been reflected within Level 3 in our fair value hierarchy. Consolidated real estate investment funds classified as Level 3 totaled approximately $0.4 billion as of both September 30, 2010 and December 31, 2009. 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 are offset by a noncontrolling interest reflected as a separate component of equity. The noncontrolling interest is not considered to be fair valued and therefore is not included in fair value reporting above. The fair value of fund investments, where the fair value option has been elected, is primarily determined by the fund managers. Since the valuations may be based on unobservable market inputs and cannot be validated by the Company, these investments have also been included within Level 3 in our fair value hierarchy. Investments in these funds included in Level 3 totaled approximately $0.2 billion as of September 30, 2010.

Derivative Instruments

Derivatives are recorded at fair value either as assets, within Other trading account assets, or Other long-term investments, or as liabilities, within Other liabilities, except for embedded derivatives which are recorded with the associated host contract. The fair values of derivative contracts are determined based on quoted prices in active exchanges or through the use of valuation models, and are affected by changes in market factors including non-performance risk. The majority of our derivative positions are traded in the over the counter, or OTC, derivative market and are classified within Level 2 in our fair value hierarchy since they have bid and ask prices that are actively quoted or can be readily obtained from external market data providers. Our policy is to use mid-market pricing consistent with our best estimate of fair value.

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 $197 million and $2 million, respectively, as of September 30, 2010 and $288 million and $6 million, respectively, as of December 31, 2009, without giving consideration to the impact of netting.

For additional information regarding embedded derivatives in our annuity and retirement products classified as Level 3, see Variable Annuity Optional Living Benefit Features below.

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

Variable Annuity Optional Living Benefit Features

Our liability for future policy benefits includes general account liabilities for guarantees on variable annuity contracts, including guaranteed minimum accumulation benefits (GMAB), guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum income and withdrawal benefits (GMIWB). While these guarantees primarily relate to the optional living benefit features of our Individual Annuities segment, they are also included in certain variable annuities in our International Insurance segment and certain retirement account based group variable annuities in our Retirement segment. These benefits are accounted for as embedded derivatives and are carried at fair value with changes in fair value included in Realized investment gains (losses), net.

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. Because there are significant assumptions utilized in the valuation of the embedded derivatives associated with our optional living benefit features that are primarily unobservable, the liability included in future policy benefits has been reflected within Level 3 in our fair value hierarchy.

We are also required to incorporate the market-perceived risk of our own non-performance in the valuation of the embedded derivatives associated with our optional living benefit features. Since insurance liabilities are senior to debt, we believe that reflecting the financial strength ratings of our insurance subsidiaries in the valuation of the liability appropriately takes into consideration our own risk of non-performance. To reflect the market s perception of our own risk of non-performance, we incorporate an additional spread over LIBOR into the discount rate used in the valuations of the embedded derivative liabilities. The additional spread over LIBOR rates incorporated into the discount rate as of September 30, 2010 generally ranged from 100 to 200 basis points for the portion of the interest rate curve most relevant to these liabilities. For September 30, 2010, our adjustment for the market s perception of our non-performance risk resulted in a $2,125 million decrease to the embedded derivative liability for the Individual Annuities segment reflecting the additional spread over LIBOR we incorporated into the discount rate used in the valuations of the embedded derivative liabilities. For December 31, 2009, our adjustment for the market s perception of our non-performance risk resulted in a $312 million decrease to the embedded derivative liability for the Individual Annuities segment. The increase in the adjustment for the market s perception of our non-performance risk from December 31, 2009 to September 30, 2010 was driven by an increase in the value of the underlying embedded derivative liability as well as an increase in the additional spread over LIBOR used in the valuation.

The change in fair value of the GMAB, GMWB and GMIWB resulted in an increase in the total liability of $1,236 million, from $55 million as of December 31, 2009 to $1,291 million as of September 30, 2010. This increase primarily reflects an increase in future expected benefit payments, primarily resulting from an annual review and update of actuarial assumptions used in the valuation of the liability which increased the liability by $902 million, primarily from a reduction in the expected lapse rate assumption. The increase in future expected benefit payments is also the result of adverse changes to significant capital market inputs, partially offset by the update of the market-perceived risk of our own non-performance 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. 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 . For further discussion of our policy regarding commercial mortgage and other loans, see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality below.

The level of other-than-temporary impairments generally reflects economic conditions and is generally expected to increase when economic conditions worsen and to decrease when economic conditions improve. Historically, the causes of other-than-temporary impairments have been specific to each individual issuer and have not directly resulted in impairments to other securities within the same industry or geographic region. However, as discussed in more detail below, certain of the other-than-temporary impairments recognized for the three months ended September 30, 2010 were primarily related to foreign currency translation losses related to foreign denominated securities that are approaching maturity. For the nine months ended September 30, 2010, other-than-temporary impairments were primarily related to Japanese commercial-mortgage backed securities and asset-backed securities collateralized by sub-prime mortgages that reflect adverse financial conditions of the respective issuers, as well as foreign currency translation losses related to foreign denominated securities that are approaching maturity. Other-than-temporary impairments for the three months and nine months ended September 30, 2009 related to asset-backed securities collateralized by sub-prime mortgages and reflect the overall deterioration of the U.S. 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. 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.

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

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

Adjusted operating income generally excludes Realized investment gains (losses), net, subject to certain exceptions (realized investment gains or losses within certain of our businesses for which such gains or losses are a principal source of earnings and those associated with terminating hedges of foreign currency earnings and current period yield adjustments) and related charges and adjustments.

The following tables set forth Realized investment gains (losses), net, by investment type for the Financial Services Businesses and Closed Block Business, as well as related charges and adjustments associated with the Financial Services Businesses, for the periods indicated. For additional details regarding adjusted operating income, which is our measure of performance for the segments of our Financial Services Businesses, see Note 11 to the Unaudited Interim Consolidated Financial Statements.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in millions)			
Realized investment gains (losses), net:				
Financial Services Businesses	$ (36)	$ (417)	$ 1,444	$ (1,258)
Closed Block Business	65	(27)	760	(1,319)
Consolidated realized investment gains (losses), net	$ 29	$ (444)	$ 2,204	$ (2,577)
Financial Services Businesses:				
Realized investment gains (losses), net				
Fixed maturity securities	$ (10)	$ (236)	$ (287)	$ (790)
Equity securities	3	(39)	3	(419)
Commercial mortgage and other loans	39	(116)	32	(376)
Derivative instruments	(69)	(26)	1,713	354
Other	1	0	(17)	(27)
Total	(36)	(417)	1,444	(1,258)
Related adjustments(1)	196	11	37	157
Realized investment gains (losses), net, and related adjustments	$ 160	$ (406)	$ 1,481	$ (1,101)
Related charges(2)	$ 118	$ 29	$ (641)	$ (561)

Closed Block Business:				
Realized investment gains (losses), net				
Fixed maturity securities	$ 92	$ (72)	$ 124	$ (369)
Equity securities	26	(84)	125	(523)
Commercial mortgage and other loans	5	(8)	19	(76)
Derivative instruments	(53)	149	495	(303)
Other	(5)	(12)	(3)	(48)
Total	$ 65	$ (27)	$ 760	$ (1,319)

(1) Related adjustments include that portion of Realized investment gains (losses), net, that are included in adjusted operating income, including those pertaining to certain derivative contracts, as well as those within certain of our businesses for which such gains (losses) are a principal source of earnings. Related adjustments also include that portion of Asset management fees and other income that are excluded from adjusted operating income, including the change in value due to the impact of changes in foreign currency exchange rates during the period on certain assets and liabilities for which we economically hedge the foreign currency exposure, realized and unrealized gains and losses on certain general account investments classified as other trading account assets, as well as counterparty credit losses on derivative positions. See Note 11 to the Unaudited Interim Consolidated Financial Statements for additional information on these related adjustments.

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

2010 to 2009 Three Month Comparison

Financial Services Businesses

The Financial Services Businesses net realized investment losses in the third quarter of 2010 were $36 million, compared to net realized investment losses of $417 million in the third quarter of 2009.

Net realized losses on fixed maturity securities were $10 million in the third quarter of 2010, compared to net realized losses of $236 million in the third quarter of 2009, as set forth in the following table:

	Three Months Ended September 30,	
	2010	**2009**
	(in millions)	
Realized investment gains (losses) Fixed Maturity Securities Financial Services Businesses		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 106	$ 107
Private bond prepayment premiums	8	12
Total gross realized investment gains	114	119
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(2)	(78)	(267)
Gross losses on sales and maturities(1)	(39)	(63)
Credit related losses on sales	(7)	(25)
Total gross realized investment losses	(124)	(355)
Realized investment gains (losses), net-Fixed Maturity Securities	$ (10)	$ (236)
Net gains (losses) on sales and maturities-Fixed Maturity Investments(1)	$ 67	$ 44

(1)

Amounts exclude prepayment premiums, other-than-temporary impairments, and credit related losses through sales of investments pursuant to our credit risk and portfolio management objectives.

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

Net trading gains on sales and maturities of fixed maturity securities were $67 million in the third quarter of 2010, and were primarily due to sales within our Retirement segment. None of the net gains on sales and maturities in the third quarter of 2010 were related to asset-backed securities collateralized by sub-prime mortgages. Net trading gains on sales and maturities of fixed maturity securities of $44 million in the third quarter of 2009 were primarily due to sales within our Individual Annuities and Retirement segments and sales of government bonds in our Gibraltar Life operations. 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. None of the gross losses on sales and maturities in the third quarter of 2009 were related to

asset-backed securities collateralized by sub-prime mortgages. See General Account Investments Fixed Maturity Securities Asset-Backed Securities for additional information regarding our exposure to sub-prime mortgages. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in the third quarter of 2010 and 2009.

Net realized gains on equity securities were $3 million in the third quarter of 2010. Net trading gains on sales of equity securities were $9 million, partially offset by other-than-temporary impairments of $6 million. Net realized losses on equity securities were $39 million in the third quarter of 2009, including other-than-temporary impairments of $62 million, partially offset by net trading gains on sales of equity securities of $23 million. Net trading gains were primarily due to sales within our International Insurance segment. See below for additional information regarding the other-than-temporary impairments of equity securities in the third quarter of 2010 and 2009.

Net realized gains on commercial mortgage and other loans in the third quarter of 2010 were $39 million primarily related to a net decrease in the loan loss reserve of $21 million and mark-to-market gains on our interim loan portfolio within our commercial mortgage operations. Net losses on commercial mortgage and other loans in the third quarter of 2009 were $116 million primarily related to the net increase in the loan loss reserve of $91 million and losses in our divested commercial mortgage securitization operations. For additional information regarding our commercial mortgage and other loan loss reserves see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality.

Net realized losses on derivatives were $69 million in the third quarter of 2010, compared to net realized losses of $26 million in the third quarter of 2009. The net derivative losses in the third quarter of 2010 primarily reflect net losses of $149 million on currency forward contracts used to hedge the future income of non-U.S. businesses and net derivative losses of $64 million on currency derivatives used to hedge foreign denominated investments as the U.S. dollar weakened. Also contributing to these losses are net derivative losses of $99 million primarily related to embedded derivatives and related hedge positions associated with certain variable annuity contracts. See Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities for additional information. Partially offsetting these losses were net mark-to-market gains of $240 million on interest rate derivatives primarily used to manage duration as interest rates declined. The net derivative losses in the third quarter of 2009 primarily reflect net losses of $228 million primarily related to embedded derivatives and related hedge positions associated with certain variable annuity contracts. See Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities for additional information. Also contributing to the net derivative losses in the third quarter of 2009 were net mark-to-market losses of $156 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses due to the weakening of the U.S. dollar. Partially offsetting these losses were net mark-to-market gains of $201 million on interest rate derivatives used to manage duration as interest rates declined and gains of $143 million on embedded derivatives associated with certain externally managed investments in the European market.

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During the third quarter of 2010, we recorded other-than-temporary impairments of $84 million in earnings, compared to total other-than-temporary impairments of $335 million recorded in earnings in the third quarter of 2009. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the Financial Services Businesses by asset type, and for fixed maturity securities, by reason.

	Three Months Ended September 30,	
	2010	2009
	(in millions)	
Other-than-temporary impairments recorded in earnings Financial Services Businesses(1)		
Public fixed maturity securities	$ 66	$ 244
Private fixed maturity securities	12	23
Total fixed maturity securities	78	267
Equity securities	6	62
Other invested assets(2)	0	6
Total	$ 84	$ 335

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

	Three Months Ended September 30, 2010		
	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)	$ 17	$ 14	$ 31
Due to other accounting guidelines(3)	0	47	47
Total	$ 17	$ 61	$ 78

(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 or amounts related to foreign currency translation losses for securities approaching maturity.

	Three Months Ended September 30, 2009		
	Asset-Backed Securities Collateralized By Sub-Prime	All Other Fixed Maturity Securities	Total Fixed Maturity Securities

	Mortgages		
		(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)	$ 147	$ 57	$ 204
Due to other accounting guidelines(3)	2	61	63
Total	$ 149	$ 118	$ 267

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(1) Excludes the portion of other-than-temporary impairment recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.
(3) Primarily represents circumstances where we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

Fixed maturity other-than-temporary impairments in the third quarter of 2010 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and the services, manufacturing, and finance sectors of our corporate securities. These other-than-temporary impairments were primarily related to securities with unrealized foreign currency translation losses that are approaching maturity or related to securities with 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. Our Japanese insurance operations hold U.S. dollar-denominated investments which in some cases, due primarily to the strengthening of the yen, are currently in an unrealized loss position. As they approach maturity and remain in an unrealized loss position, it becomes less likely that the exchange rates will recover and more likely that losses will be realized upon maturity. Accordingly, additional impairments would be recorded in earnings. As of September 30, 2010, gross unrealized losses related to those securities maturing between October 1, 2010 and December 31, 2012 are $199 million. Based on September 30, 2010 fair values, absent a change in currency rates, impairments of approximately $20 million would be recorded in earnings over the remaining 3 months of 2010 and approximately $149 million in 2011. During the third quarter of 2010, we recorded other-than-temporary impairments of $44 million in earnings related to unrealized foreign currency translation losses that are approaching maturity. Fixed maturity other-than-temporary impairments in the third quarter of 2009 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and the finance and manufacturing sectors of our corporate securities, and were primarily driven by liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers which have caused, or we believe will lead to, a deficiency in the contractual cash flows related to the investment.

Equity security other-than-temporary impairments in the third quarter of 2010 were primarily driven by circumstances where the decline in value was maintained for one year or greater. Equity security other-than-temporary impairments in the third quarter of 2009 were primarily in our Japanese insurance operations equity portfolios and were driven by circumstances where the decline in value was maintained for one year or greater or where we intended to sell the security.

Closed Block Business

For the Closed Block Business, net realized investment gains in the third quarter of 2010 were $65 million, compared to net realized investment losses of $27 million in the third quarter of 2009.

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Net realized gains on fixed maturity securities were $92 million in the third quarter of 2010, compared to net realized losses of $72 million in the third quarter of 2009, as set forth in the following table:

	Three Months Ended September 30,	
	2010	2009
	(in millions)	
Realized investment gains (losses) Fixed Maturity Securities Closed Block Business		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 96	$ 24
Private bond prepayment premiums	8	7
Total gross realized investment gains	104	31
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(2)	(12)	(93)
Gross losses on sales and maturities(1)	0	(10)
Credit related losses on sales	0	0
Total gross realized investment losses	(12)	(103)
Realized investment gains (losses), net-Fixed Maturity Securities	$ 92	$ (72)
Net gains (losses) on sales and maturities-Fixed Maturity Investments(1)	$ 96	$ 14

(1) Amounts exclude prepayment premiums, other-than-temporary impairments, and credit related losses through sales of investments pursuant to our credit risk and portfolio management objectives.
(2) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

Net trading gains on sales and maturities of fixed maturity securities of $96 million in the third quarter of 2010 were primarily due to total return driven trading. Gross losses on sales and maturities of fixed maturity securities were $0 million in the third quarter of 2010 compared to losses of $10 million in the third quarter of 2009. There were no sales or maturities related to asset-backed securities collateralized by sub-prime mortgages in the third quarter of 2010. Net trading gains on sales and maturities of fixed maturity securities of $14 million in the third quarter of 2009 were primarily due to sales. See General Account Investments Fixed Maturity Securities Asset-Backed Securities for additional information regarding our exposure to sub-prime mortgages. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in the third quarter of 2010 and 2009.

Net realized gains on equity securities were $26 million in the third quarter of 2010. Net trading gains on sales of equity securities were $45 million, partially offset by other-than-temporary impairments of $19 million. Net realized losses on equity securities were $84 million in the third quarter of 2009, of which other-than-temporary impairments were $161 million, partially offset by net trading gains on sales of equity securities of $77 million. See below for additional information regarding the other-than-temporary impairments of equity securities in the third quarter of 2010 and 2009.

Net realized gains on commercial mortgage and other loans in the third quarter of 2010 were $5 million related to a net decrease in the loan loss reserve. Commercial mortgage and other loans net losses in the third quarter of 2009 were $8 million related to a net increase in the loan loss reserve. For additional information regarding our loan loss reserves see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality.

Net realized losses on derivatives were $53 million in the third quarter of 2010, compared to net realized gains of $149 million in the third quarter of 2009. Derivative losses in the third quarter of 2010 primarily reflect net derivative losses of $147 million on currency derivatives used to hedge foreign denominated investments as the U.S. dollar weakened. Partially offsetting these losses were net mark-to-market gains of $95 million on

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interest rate derivatives primarily used to manage duration as interest rates declined. Derivative gains in the third quarter of 2009 primarily reflect net mark-to-market gains of $193 million on interest rate derivatives used to manage duration and net gains of $29 million on embedded derivatives associated with certain externally managed investments in the European market. Partially offsetting these gains were net losses of $71 million related to currency derivatives used to hedge foreign denominated investments.

Net realized losses on other investments were $5 million in the third quarter of 2010, which included $4 million of trading losses related to the sale of investments and $1 million of other-than-temporary impairments on joint venture and partnership investments. Net realized losses on other investments were $12 million in the third quarter of 2009, of which $13 million was related to other-than-temporary impairments on joint venture and partnership investments.

During the third quarter of 2010, we recorded other-than-temporary impairments of $32 million in earnings, compared to other-than-temporary impairments of $267 million recorded in earnings in the third quarter of 2009. 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.

	Three Months Ended September 30,	
	2010	2009
	(in millions)	
Other-than-temporary impairments recorded in earnings Closed Block Business(1)		
Public fixed maturity securities	$ 11	$ 90
Private fixed maturity securities	1	3
Total fixed maturity securities	12	93
Equity securities	19	161
Other invested assets(2)	1	13
Total	$ 32	$ 267

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

	Three Months Ended September 30, 2010		
	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)	$ 7	$ 3	$ 10
Due to other accounting guidelines(3)	0	2	2
Total	$ 7	$ 5	$ 12

(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.

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	Three Months Ended September 30, 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)	$ 70	$ 17	$ 87
Due to other accounting guidelines(3)	2	4	6
Total	$ 72	$ 21	$ 93

(1) Excludes the portion of other-than-temporary impairment recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.
(3) Primarily represents circumstances where we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

Fixed maturity other-than-temporary impairments in the third quarter of 2010 were concentrated in asset-backed securities collateralized by sub-prime mortgages 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 the third quarter of 2009 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and the finance and manufacturing sectors of our corporate securities, and were primarily driven by liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers, which have caused, or we believe will lead to, a deficiency in the contractual cash flows related to the investment.

Equity security other-than-temporary impairments in the third quarter of 2010 were primarily due to circumstances where the decline in value was maintained for one year or greater. Equity security other-than-temporary impairments in the third quarter of 2009 were primarily driven by overall declines in the equity markets.

2010 to 2009 Nine Month Comparison

Financial Services Businesses

The Financial Services Businesses net realized investment gains in the first nine months of 2010 were $1,444 million, compared to net realized investment losses of $1,258 million in the first nine months of 2009.

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Net realized losses on fixed maturity securities were $287 million in the first nine months of 2010, compared to net realized losses of $790 million in the first nine months of 2009, as set forth in the following table:

	Nine Months Ended September 30,	
	2010	2009
	(in millions)	
Realized investment gains (losses) Fixed Maturity Securities Financial Services Businesses		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 272	$ 620
Private bond prepayment premiums	16	13
Total gross realized investment gains	288	633
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(2)	(417)	(1,018)
Gross losses on sales and maturities(1)	(127)	(313)
Credit related losses on sales	(31)	(92)
Total gross realized investment losses	(575)	(1,423)
Realized investment gains (losses), net-Fixed Maturity Securities	$ (287)	$ (790)
Net gains (losses) on sales and maturities-Fixed Maturity Investments(1)	$ 145	$ 307

(1) Amounts exclude prepayment premiums, other-than-temporary impairments, and credit related losses through sales of investments pursuant to our credit risk and portfolio management objectives.
(2) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

Net trading gains on sales and maturities of fixed maturity securities in the first nine months of 2010 were $145 million primarily due to sales within our Individual Annuities and Retirement segments. Net trading gains on sales and maturities of fixed maturity securities of $307 million in the first nine months of 2009 were primarily due to sales within our Individual Annuities segment from 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 and sales of government bonds in our Gibraltar Life and Japanese Life Planner operations. Net gains on sales and maturities in the first nine months of 2010 included $2 million related to asset-backed securities collateralized by sub-prime mortgages. None of the gross losses on sales and maturities in the first nine months of 2009 were related to asset-backed securities collateralized by sub-prime mortgages. See General Account Investments Fixed Maturity Securities Asset-Backed Securities for additional information regarding our exposure to sub-prime mortgages. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in the first nine months of 2010 and 2009.

Net realized gains on equity securities were $3 million in the first nine months of 2010. Net trading gains on sale of equity securities were $80 million, related to private equity sales within our Corporate and Other operations, partially offset by other-than-temporary equity security impairments of $77 million. Net realized losses on equity securities were $419 million in the first nine months of 2009, of which other-than-temporary impairments were $379 million and net trading losses on sales of equity securities were $40 million. Net trading losses in the first nine months of 2009 were primarily due to sales within our Gibraltar Life operations. See below for additional information regarding the other-than-temporary impairments of equity securities in the first nine months of 2010 and 2009.

Net realized gains on commercial mortgage and other loans in the first nine months of 2010 were $32 million primarily related to a net decrease in the loan loss reserve of $85 million, partially offset by mark-to-market net losses on our interim loan portfolio within our commercial mortgage operations. Commercial

mortgage and other loans net losses in the first nine months of 2009 of $376 million were primarily related to a net increase in the loan loss reserve of $302 million and mark-to-market net losses on mortgage loans within our divested commercial mortgage securitization operations. For additional information regarding our commercial mortgage and other loan loss reserves see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality.

Net realized gains on derivatives were $1,713 million in the first nine months of 2010, compared to net realized gains of $354 million in the first nine months of 2009. The net derivative gains in the first nine months of 2010 primarily reflect net gains of $1,037 million primarily related to embedded derivatives and related hedge positions associated with certain variable annuity contracts. See Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities for additional information. Also contributing to these gains are net derivative gains of $731 million on interest rate derivatives used to manage duration as interest rates declined and net gains of $86 million on currency derivatives used to hedge foreign denominated investments. Partially offsetting these gains were net losses of $234 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses primarily in Japan. The net derivative gains in the first nine months of 2009 primarily reflect net gains of $630 million primarily related to embedded derivatives and related hedge positions associated with certain variable annuity contracts. See Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities for additional information. Also contributing to the net derivative gains in the first nine months of 2009 were gains of $148 million on embedded derivatives associated with certain externally managed investments in the European market. Partially offsetting these gains were net mark-to-market losses of $309 million on interest rate derivatives used to manage duration and net losses of $118 million on currency derivatives used to hedge foreign denominated investments.

Net realized losses on other investments were $17 million in the first nine months of 2010, which included $27 million of other other-than-temporary impairments on joint venture and partnership investments. Net realized losses on other investments were $27 million in the first nine months of 2009, which included $34 million of other-than-temporary impairments on joint venture and partnership investments.

During the first nine months of 2010 we recorded other-than-temporary impairments of $521 million in earnings, compared to total other-than-temporary impairments of $1,431 million recorded in earnings in the first nine months of 2009. 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.

	Nine Months Ended September 30,	
	2010	2009
	(in millions)	
Other-than-temporary impairments recorded in earnings Financial Services Businesses(1)		
Public fixed maturity securities	$ 289	$ 898
Private fixed maturity securities	128	120
Total fixed maturity securities	417	1,018
Equity securities	77	379
Other invested assets(2)	27	34
Total	$ 521	$ 1,431

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

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	Nine Months Ended September 30, 2010		
	Asset-Backed Securities Collateralized By Sub-Prime Mortgages	All Other Fixed Maturity Securities (in millions)	Total Fixed Maturity Securities
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)	$ 96	$ 168	$ 264
Due to other accounting guidelines(3)	9	144	153
Total	$ 105	$ 312	$ 417

(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.

	Nine Months Ended September 30, 2009		
	Asset-Backed Securities Collateralized By Sub-Prime Mortgages	All Other Fixed Maturity Securities (in millions)	Total Fixed Maturity Securities
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)	$ 584	$ 292	$ 876
Due to other accounting guidelines(3)	14	128	142
Total	$ 598	$ 420	$ 1,018

(1) Excludes the portion of other-than-temporary impairment recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.
(3) Primarily represents circumstances where we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

Fixed maturity other-than-temporary impairments in the first nine months of 2010 were concentrated in Japanese commercial mortgage-backed securities, asset-backed securities collateralized by sub-prime mortgages, and the services sector of our corporate securities. These other-than-temporary impairments were primarily related to securities with unrealized foreign currency translation losses that are approaching maturity or related to securities with 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. Our Japanese insurance operations hold U.S. dollar-denominated investments which in some cases, due primarily to the strengthening of the yen, are currently in an unrealized loss position. As they approach maturity and remain in an unrealized loss position, it becomes less likely that the exchange rates will recover and more likely that losses will be realized upon maturity. Accordingly, additional impairments would be recorded in earnings. As of September 30, 2010, gross unrealized losses related to those securities, maturing between October 1, 2010 and December 31, 2012 are $199

million. Based on September 30, 2010 fair values,

absent a change in currency rates, impairments of approximately $20 million would be recorded in earnings over the remaining three months of 2010 and approximately $149 million in 2011. During the first nine months of 2010 we recorded other-than-temporary impairments of $122 million related to unrealized foreign currency translation losses that are approaching maturity. Fixed maturity other-than-temporary impairments in the first nine months of 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 the first nine months of 2010 were primarily driven by circumstances where the decline in value was maintained for one year or greater or where we intend to sell the security. Equity security other-than-temporary impairments in the first nine months of 2009 were primarily driven by overall declines in the Japanese equity markets and losses 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.

Closed Block Business

For the Closed Block Business, net realized investment gains in the first nine months of 2010 were $760 million, compared to net realized investment losses of $1,319 million in the first nine months of 2009.

Net realized gains on fixed maturity securities were $124 million in the first nine months of 2010, compared to net realized losses of $369 million in the first nine months of 2009, as set forth in the following table:

	Nine Months Ended September 30,	
	2010	2009
	(in millions)	
Realized investment gains (losses) Fixed Maturity Securities Closed Block Business		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 185	$ 137
Private bond prepayment premiums	12	9
Total gross realized investment gains	197	146
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(2)	(66)	(446)
Gross losses on sales and maturities(1)	(6)	(64)
Credit related losses on sales	(1)	(5)
Total gross realized investment losses	(73)	(515)
Realized investment gains (losses), net-Fixed Maturity Securities	$ 124	$ (369)
Net gains (losses) on sales and maturities-Fixed Maturity Investments(1)	$ 179	$ 73

(1) Amounts exclude prepayment premiums, other-than-temporary impairments, and credit related losses through sales of investments pursuant to our credit risk and portfolio management objectives.
(2) Excludes the portion of other-than-temporary impairments recorded in "Other comprehensive income (loss)," representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

Net trading gains on sales and maturities of fixed maturity securities of $179 million in the first nine months of 2010 were primarily due to total return driven trading. Gross losses on sales and maturities of fixed maturity securities were $6 million in the first nine months of 2010 compared to losses of $64 million in the first nine months of 2009. There were $3 million of net gains on sales or maturities related to asset-backed securities

collateralized by sub-prime mortgages in the first nine months of 2010. Net trading gains on sales and maturities of fixed maturity securities of $73 million in the first nine months of 2009 were 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 the first nine months of 2010 and 2009.

Net realized gains on equity securities were $125 million in the first nine months of 2010. Net trading gains on sales of equity securities were $149 million, partially offset by other-than-temporary impairments of $24 million. Net realized losses on equity securities were $523 million in the first nine months of 2009, of which other-than-temporary impairments were $600 million, partially offset by net trading gains on sales of equity securities of $77 million. See below for additional information regarding the other-than-temporary impairments of equity securities in the first nine months of 2010 and 2009.

Net realized gains on commercial mortgage and other loans of $19 million in the first nine months of 2010 were primarily related to a net decrease in the loan loss reserve of $24 million. Net realized losses on commercial mortgage and other loans were $76 million in the first nine months of 2009 related to the net increase in the loan loss reserve. For additional information regarding our loan loss reserves see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality.

Net realized gains on derivatives were $495 million in the first nine months of 2010, compared to net realized losses of $303 million in the first nine months of 2009. Derivative gains in the first nine months of 2010 primarily reflect net mark-to-market gains of $408 million on interest rate derivatives used to manage duration as interest rates declined and net derivative gains of $76 million on currency derivatives used to hedge foreign denominated investments. Derivative losses in the first nine months of 2009 primarily reflect net mark-to-market losses of $201 million on interest rate derivatives used to manage the duration of the fixed maturity investment portfolio and net losses of $153 million related to currency derivatives used to hedge foreign denominated investments. For information regarding our methodology for determining the fair value of our derivative instruments, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Derivative Instruments.

Net realized losses on other investments were $3 million in the first nine months of 2010, which included $6 million of other-than-temporary impairments on joint venture and partnership investments. Net realized losses on other investments were $48 million in the first nine months of 2009 which included $51 million of other-than-temporary impairments in joint venture and partnership investments.

During the first nine months of 2010, we recorded other-than-temporary impairments of $96 million in earnings, compared to other-than-temporary impairments of $1,097 million recorded in earnings in the first nine months of 2009. 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.

	Nine Months Ended September 30,	
	2010	2009
	(in millions)	
Other-than-temporary impairments recorded in earnings Closed Block Business(1)		
Public fixed maturity securities	$ 56	$ 411
Private fixed maturity securities	10	35
Total fixed maturity securities	66	446
Equity securities	24	600

Other invested assets(2)	6	51
Total	$ 96	$ 1,097

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

	Nine Months Ended September 30, 2010		
	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)	$ 39	$ 21	$ 60
Due to other accounting guidelines(3)	0	6	6
Total	$ 39	$ 27	$ 66

(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.

	Nine Months Ended September 30, 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)	$ 270	$ 167	$ 437
Due to other accounting guidelines(3)	3	6	9
Total	$ 273	$ 173	$ 446

(1) Excludes the portion of other-than-temporary impairment recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.
(3) Primarily represents circumstances where we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

Fixed maturity other-than-temporary impairments in the first nine months of 2010 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and the services sector of our corporate securities, and were primarily driven by liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers, which have caused, or we believe will lead to, a deficiency in the contractual cash flows related to the investment. Other-than-temporary impairments in the first nine months of 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 the first nine months of 2010 were primarily due to circumstances where the decline in value was maintained for one year or greater. Equity security other-than-temporary impairments in the first nine months of 2009 were primarily driven by overall declines in the equity markets.

General Account Investments

Portfolio Composition

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, equity securities and other invested assets. The composition of our general account reflects, within the discipline provided by our risk management approach, our need for competitive results and the selection of diverse investment alternatives available primarily through our Asset Management segment. The size of our portfolio enables us to invest in asset classes that may be unavailable to the typical investor. The following tables set forth the composition of the investments of our general account apportioned between the Financial Services Businesses and the Closed Block Business as of the dates indicated.

	September 30, 2010			
	Financial Services Businesses	Closed Block Business	Total	% of Total
		($ in millions)		
Fixed Maturities:				
Public, available for sale, at fair value	$ 126,185	$ 31,205	$ 157,390	56.8%
Public, held to maturity, at amortized cost	3,975	0	3,975	1.5
Private, available for sale, at fair value	23,015	14,757	37,772	13.6
Private, held to maturity, at amortized cost	1,258	0	1,258	0.5
Trading account assets supporting insurance liabilities, at fair value	17,750	0	17,750	6.4
Other trading account assets, at fair value	1,281	164	1,445	0.5
Equity securities, available for sale, at fair value	4,010	3,251	7,261	2.6
Commercial mortgage and other loans, at book value	22,017	8,458	30,475	11.0
Policy loans, at outstanding balance	5,147	5,397	10,544	3.8
Other long-term investments(1)	2,933	1,558	4,491	1.6
Short-term investments(2)	3,657	1,031	4,688	1.7
Total general account investments	211,228	65,821	277,049	100.0%
Invested assets of other entities and operations(3)	10,346	0	10,346	
Total investments	$ 221,574	$ 65,821	$ 287,395	

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	December 31, 2009			
	Financial Services Businesses	Closed Block Business	Total	% of Total
		($ in millions)		
Fixed Maturities:				
Public, available for sale, at fair value	$ 111,268	$ 29,537	$ 140,805	55.7%
Public, held to maturity, at amortized cost	4,009	0	4,009	1.6
Private, available for sale, at fair value	19,424	12,994	32,418	12.8
Private, held to maturity, at amortized cost	1,111	0	1,111	0.5
Trading account assets supporting insurance liabilities, at fair value	16,020	0	16,020	6.3
Other trading account assets, at fair value	1,616	167	1,783	0.7
Equity securities, available for sale, at fair value	3,798	3,085	6,883	2.7
Commercial mortgage and other loans, at book value	21,281	8,363	29,644	11.7
Policy loans, at outstanding balance	4,728	5,418	10,146	4.0
Other long-term investments(1)	2,811	1,545	4,356	1.7
Short-term investments(2)	4,302	1,338	5,640	2.3
Total general account investments	190,368	62,447	252,815	100.0%
Invested assets of other entities and operations(3)	7,737	0	7,737	
Total investments	$ 198,105	$ 62,447	$ 260,552	

(1) Other long-term investments consist of real estate and non-real estate related investments in joint ventures and partnerships, investment real estate held through direct ownership and other miscellaneous investments. For additional information regarding these investments, see Other Long-Term Investments below.
(2) Short-term investments have virtually no sub-prime exposure.
(3) Includes invested assets of brokerage, trading and banking operations, real estate and relocation services, and asset management operations. Excludes assets of our asset management operations managed for third parties and those assets classified as Separate account assets on our balance sheet. For additional information regarding these investments, see Invested Assets of Other Entities and Operations below.

As of September 30, 2010, the average duration of our general account investment portfolio attributable to the domestic Financial Services Businesses, including the impact of derivatives, is between 4 and 5 years. The increase in general account investments attributable to the Financial Services Businesses in the first nine months of 2010 was primarily a result of a net increase in fair value driven by a decrease in risk free rates, portfolio growth as a result of reinvestment of net investment income and the impact of changes in foreign currency exchange rates. The increase in general account investments attributable to the Closed Block Business in the first nine months of 2010 was primarily due to portfolio growth as a result of reinvestment of net investment income and a net increase in fair value driven by a decrease in risk free rates, partially offset by net operating outflows. For information regarding the methodology used in determining the fair value of our fixed maturities, see Note 13 to the Unaudited Interim Consolidated Financial Statements.

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We have substantial insurance operations in Japan, with 38% and 36%, of our Financial Services Businesses general account investments relating to our Japanese insurance operations as of September 30, 2010 and December 31, 2009, respectively. The following table sets forth the composition of the investments of our Japanese insurance operations general account as of the dates indicated.

	September 30, 2010	December 31, 2009
	(in millions)	
Fixed Maturities:		
Public, available for sale, at fair value	$ 59,769	$ 50,476
Public, held to maturity, at amortized cost	3,975	4,009
Private, available for sale, at fair value	3,242	2,692
Private, held to maturity, at amortized cost	1,258	1,111
Trading account assets supporting insurance liabilities, at fair value	1,376	1,236
Other trading account assets, at fair value	732	804
Equity securities, available for sale, at fair value	1,544	1,508
Commercial mortgage and other loans, at book value	4,016	3,675
Policy loans, at outstanding balance	2,011	1,760
Other long-term investments(1)	1,685	1,524
Short-term investments	290	313
Total Japanese general account investments(2)	$ 79,898	$ 69,108

(1) Other long-term investments consist of real estate and non-real estate related investments in joint ventures and partnerships, investment real estate held through direct ownership, derivatives, and other miscellaneous investments.
(2) Excludes assets classified as Separate accounts assets on our balance sheet.

As of September 30, 2010, the average duration of our general account investment portfolio related to our Japanese insurance operations, including the impact of derivatives, is approximately 12 years. The increase in general account investments related to our Japanese insurance operations in the first nine months of 2010 is primarily attributable to the impact of changes in foreign currency exchange rates, portfolio growth as a result of business inflows, reinvestment of net investment income and a net increase in fair value driven by a decrease in risk free rates.

Our Japanese insurance operations use the yen as their functional currency, as it is the currency in which they conduct the majority of their operations. Although the majority of the Japanese general account is invested in yen denominated investments, our Japanese insurance operations also hold significant investments denominated in U.S. dollars. As of September 30, 2010, our Japanese insurance operations had $17.9 billion, at fair value, of investments denominated in U.S. dollars, including $0.7 billion that were hedged to yen through third party derivative contracts and $10.3 billion that support liabilities denominated in U.S. dollars. As of December 31, 2009, our Japanese insurance operations had $14.8 billion, at fair value, of investments denominated in U.S. dollars, including $0.5 billion that were hedged to yen through third party derivative contracts and $7.4 billion that support liabilities denominated in U.S. dollars. For additional information regarding U.S. dollar investments held in our Japanese insurance operations see, Results of Operations for Financial Services Businesses by Segment International Insurance and Investments Division.

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Investment Results

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

	Three Months Ended September 30, 2010					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)					
Fixed maturities	4.29%	$ 1,501	5.82%	$ 582	4.63%	$ 2,083
Trading account assets supporting insurance liabilities	4.48	192	0.00	0	4.48	192
Equity securities	6.48	55	2.25	16	4.58	71
Commercial mortgage and other loans	6.02	325	6.70	140	6.21	465
Policy loans	5.10	64	6.21	83	5.67	147
Short-term investments and cash equivalents	0.34	10	0.66	1	0.35	11
Other investments	5.05	51	6.03	28	5.36	79
Gross investment income before investment expenses	4.34	2,198	5.77	850	4.66	3,048
Investment expenses	(0.13)	(53)	(0.24)	(37)	(0.15)	(90)
Investment income after investment	4.21%	2,145	5.53%	813	4.51%	2,958
Investment results of other entities and operations(2)		60		0		60
Total investment income		$ 2,205		$ 813		$ 3,018

	Three Months Ended September 30, 2009					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)					
Fixed maturities	4.43%	$ 1,407	5.87%	$ 583	4.77%	$ 1,990
Trading account assets supporting insurance liabilities	4.86	185	0.00	0	4.86	185
Equity securities	7.40	62	2.74	18	5.36	80
Commercial mortgage and other loans	5.69	308	6.50	139	5.92	447
Policy loans	5.10	57	6.42	86	5.82	143
Short-term investments and cash equivalents	0.38	13	1.45	5	0.46	18
Other investments	3.60	43	0.86	4	2.87	47
Gross investment income before investment expenses	4.40	2,075	5.65	835	4.70	2,910
Investment expenses	(0.13)	(52)	(0.22)	(34)	(0.15)	(86)
Investment income after investment expenses	4.27%	2,023	5.43%	801	4.55%	2,824
Investment results of other entities and operations(2)		30		0		30
Total investment income		$ 2,053		$ 801		$ 2,854

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

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

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See below for a discussion of the change in the Financial Services Businesses yields. The increase in net investment income yield attributable to the Closed Block Business for the three months ended September 30, 2010, compared to the three months ended September 30, 2009, was primarily due to investments in joint ventures and limited partnerships, driven by appreciation and gains on the underlying assets, partially offset by the impact of lower interest rates on floating rate fixed maturity investments, due to rate resets, as well as lower fixed maturity reinvestment rates and lower short-term rates.

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

	Nine Months Ended September 30, 2010					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)					
Fixed maturities	4.31%	$ 4,395	5.91%	$ 1,748	4.67%	$ 6,143
Trading account assets supporting insurance liabilities	4.53	562	0.00	0	4.53	562
Equity securities	6.56	164	2.69	55	4.82	219
Commercial mortgage and other loans	5.89	927	6.63	405	6.10	1,332
Policy loans	4.93	178	6.35	251	5.67	429
Short-term investments and cash equivalents	0.30	27	0.50	4	0.30	31
Other investments	4.25	131	4.69	62	4.38	193
Gross investment income before investment expenses	4.34	6,384	5.81	2,525	4.67	8,909
Investment expenses	(0.13)	(153)	(0.24)	(106)	(0.15)	(259)
Investment income after investment expenses	4.21%	6,231	5.57%	2,419	4.52%	8,650
Investment results of other entities and operations(2)		156		0		156
Total investment income		$ 6,387		$ 2,419		$ 8,806

	Nine Months Ended September 30, 2009					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)					
Fixed maturities	4.55%	$ 4,250	6.02%	$ 1,788	4.90%	$ 6,038
Trading account assets supporting insurance liabilities	5.20	560	0.00	0	5.20	560
Equity securities	6.42	175	2.90	60	4.91	235
Commercial mortgage and other loans	5.76	925	6.54	415	5.98	1,340
Policy loans	5.11	165	6.46	257	5.85	422
Short-term investments and cash equivalents	0.61	56	3.56	29	0.82	85
Other investments	3.70	121	(5.57)	(76)	0.97	45
Gross investment income before investment expenses	4.52	6,252	5.59	2,473	4.78	8,725
Investment expenses	(0.14)	(155)	(0.22)	(107)	(0.16)	(262)
Investment income after investment expenses	4.38%	6,097	5.37%	2,366	4.62%	8,463

Investment results of other entities and operations(2)	71	0	71
Total investment income	$ 6,168	$ 2,366	$ 8,534

(1) Yields are annualized, for interim periods, and are based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on cost. Yields for fixed maturities and short-term investments and cash equivalents are calculated net of liabilities and rebate expenses

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corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets. Prior period s yields are presented on a basis consistent with the current period presentation.

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

See below for a discussion of the change in the Financial Services Businesses yields. The increase in net investment income yield attributable to the Closed Block Business for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 was primarily due to investments in joint ventures and limited partnerships, driven by appreciation and gains on the underlying assets, partially offset by the impact of lower interest rates on floating rate fixed maturity investments, due to rate resets, as well as lower fixed maturity reinvestment rates and lower short-term rates.

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

	Three Months Ended September 30, 2010		Three Months Ended September 30, 2009	
	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)			
Fixed maturities	5.48%	$ 1,056	5.58%	$ 1,016
Trading account assets supporting insurance liabilities	4.63	183	5.06	