AMERICAN ELECTRIC POWER CO INC
Form 11-K
June 25, 2004

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 11-K

(Mark One)

[X] ANNUAL REPORT PURSUANT TO SECTION 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2003

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from____to____

AMERICAN ELECTRIC POWER SYSTEM
RETIREMENT SAVINGS PLAN
(Full title of the plan)

AMERICAN ELECTRIC POWER COMPANY, INC.
1 Riverside Plaza, Columbus, Ohio 43215
(Name of issuer of the securities held
pursuant to the plan and the address
of its principal executive office)

AMERICAN ELECTRIC POWER SYSTEM RETIREMENT SAVINGS PLAN

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AMERICAN ELECTRIC POWER SYSTEM RETIREMENT SAVINGS PLAN

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Benefits Finance Committee has duly caused this annual report to be signed by the undersigned thereunto duly authorized.

/s/ J. Steven Kiser

J. Steven Kiser, Secretary
Benefits Finance Committee

June 22, 2004

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

American Electric Power Service Corporation, as Plan Administrator:

We have audited the accompanying statements of net assets available for benefits of the American Electric Power System Retirement Savings Plan (the Plan) as of December 31, 2003 and 2002, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by Plan management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2003 and 2002, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedule listed in the Table of Contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 (ERISA). This supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

DELOITTE & TOUCHE LLP
Columbus, Ohio
June 17, 2004

AMERICAN ELECTRIC POWER SYSTEM
RETIREMENT SAVINGS PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
DECEMBER 31, 2003 AND 2002

	2003	2002
ASSETS:		
Investments:		
Group Annuity, Bank Investment and Other Fixed Income Contracts	$895,748,232	$848,003,235
American Electric Power Company, Inc. - Common Stock	470,722,315	478,716,705
Registered Investment Company Funds	1,052,591,732	763,651,665
Fidelity Institutional Cash Portfolio Fund	26,050,684	30,612,743
Participant Loans	49,590,440	43,986,815
Total Investments	2,494,703,403	2,164,971,163
Other Receivables	209,543	1,881,506
NET ASSETS AVAILABLE FOR BENEFITS	$2,494,912,946	$2,166,852,669

See notes to financial statements

AMERICAN ELECTRIC POWER SYSTEM
RETIREMENT SAVINGS PLAN

STATEMENTS OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
YEARS ENDED DECEMBER 31, 2003 AND 2002

	2003	2002		
		Participant Directed	**Non-Participant Directed**	**Total**
NET INVESTMENT INCOME:				
Interest	$42,164,117	$33,317,009	$-	$33,317,009
Dividends	42,632,439	34,843,399	-	34,843,399
Net Appreciation (Depreciation) in Fair Value of Investments	261,899,882	(314,703,562)	849,510	(313,854,052)
Total Net Investment Income (Loss)	346,696,438	(246,543,154)	849,510	(245,693,644)
INTERFUND TRANSFERS	-	(165,961)	165,961	-
CONTRIBUTIONS:				
Participants	124,043,826	108,595,791	-	108,595,791
Employer	52,709,876	25,537,114	5,086,876	30,623,990
Total Contributions	176,753,702	134,132,905	5,086,876	139,219,781
DISTRIBUTIONS TO PARTICIPANTS	(195,389,863)	(129,971,864)	(1,758,865)	(131,730,729)
TRANSFERRED IN FROM CSW PLAN	-	603,922,907	-	603,922,907
TRANSFER TO PARTICIPANT DIRECTED	-	112,191,665	(112,191,665)	-
INCREASE (DECREASE) IN NET ASSETS	328,060,277	473,566,498	(107,848,183)	365,718,315
NET ASSETS AVAILABLE FOR BENEFITS BEGINNING OF YEAR	2,166,852,669	1,693,286,171	107,848,183	1,801,134,354
NET ASSETS AVAILABLE FOR BENEFITS END OF YEAR	$2,494,912,946	$2,166,852,669	$-	$2,166,852,669

See notes to financial statements.

AMERICAN ELECTRIC POWER SYSTEM
RETIREMENT SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2003 AND 2002

1. PLAN DESCRIPTION

The following description of the American Electric Power System Retirement Savings Plan (the Plan) is provided for general information purposes only. Participants should refer to the Plan documents for more complete information.

The Plan is a defined contribution plan that became effective and commenced operations on January 1, 1978. The Plan covers eligible regularly scheduled full-time and part-time employees of the American Electric Power Company, Inc. and its participating subsidiaries ("AEP" or the "Company"). Eligible employees may enroll in the Plan upon commencement of employment. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). Generally, eligible employees participating in the Plan may make contributions in 1% increments up to 20% of their salary. Effective January 1, 2003 employees with a gross income of less than $90,000 in 2002 will be able to contribute up to 30% of their eligible pay (within IRS limits). Effective January 1, 2003, AEP employees ages 50 and older are able to save an additional $2,000 in pre-tax dollars. Prior to January 1, 2003, AEP employees ages 50 and older were able to save an additional $1,000 in pre-tax dollars. The Company contributes to the Plan, on behalf of each participant, an amount equal to 75% of the participant s contribution up to 6% of the participant s compensation for each payroll period, subject to certain limitations. All contributions are participant directed. All contributions are deposited to the American Electric Power System Employees Savings Plan Trust after each pay period. The Tax Reform Act of 1986 restricts the amount that certain participants who are deemed highly compensated may contribute to the Plan. Participants are allowed to change investment elections, change investment percentages in the funds, or move existing fund balances on a daily basis. Participants are immediately vested in their pre-tax, after-tax and the Company matching contributions including earnings thereon.

Effective June 15, 2000, the Company entered into a merger with Central and South West Corporation (CSW). The merger agreement provided that the CSW qualified plans remain in effect until July 1, 2002. The Central and South West Corporation Retirement Savings (CSW Plan) was merged into the Plan on December 31, 2002. All assets of the CSW Plan were transferred to the Plan on this date.

American Electric Power Service Corporation is the plan administrator (Plan Administrator) and the plan sponsor. Fidelity Management Trust Company (Fidelity) is the trustee for all funds and is the recordkeeper for the entire Plan.

Effective January 1, 2002, the AEP Stock Fund, a Plan investment option, was converted to an Employee Stock Ownership Plan (ESOP). As a result, participants can elect to have dividends generated from their AEP Stock Fund holdings paid out in cash, rather than automatically reinvesting in the fund. The dividend payouts are made each December and are treated as ordinary income for tax purposes, and the 10 percent early withdrawal penalty for individuals under age 59 1/2 does not apply.

Prior to March 1, 2002, the matching contribution for participants under the age of 50 was directed to the AEP Stock Fund only. Participants age 50 and older could direct their matching contributions to any of the available investment elections. Effective March 1, 2002, all Company contributions are allocated according to the employee's contribution investment elections. In addition, all participants were able to redirect a portion or all of the existing Company contributions in the AEP Stock Fund at March 1, 2002 to any of the available investment elections. During 2003, participants could direct the investment of their contributions to any combination of the following funds:

The Managed Income Fund, the objective of which is to invest in contracts with various insurance and financial institutions at varying annual interest rates, maturing over periods approximating five years or less and temporary investments in the Fidelity Institutional Cash Portfolio.

AEP Stock Fund, the objective of which is to invest in American Electric Power Company, Inc. (AEP) common stock and temporary investments in the Fidelity Institutional Cash Portfolio Money Market Fund.

The Fidelity Puritan Fund, the objective of which is to invest in a broadly diversified portfolio of domestic and foreign common stocks, and preferred stocks and bonds, including lower-quality, high-yield debt securities. The prospectus for the Puritan Fund indicates that the Puritan Fund is a growth and income fund.

The Fidelity OTC Portfolio, the objective of which is to invest in common stocks, preferred stocks, securities convertible into common stocks, and debt securities that are traded on the over-the-counter (OTC) securities market. The prospectus for the OTC Portfolio indicates that the OTC Portfolio is a growth fund.

The Fidelity Overseas Fund, the objective of which is to invest in foreign securities, including common stocks and securities convertible into common stocks, as well as debt instruments. The prospectus for the Overseas Fund indicates that the Overseas Fund is an international growth fund.

The Fidelity Blue Chip Growth Fund, the objective of which is to invest in a diversified portfolio of common stocks of well-known and established domestic and foreign companies. The prospectus for the Blue Chip Growth Fund indicates that the Blue Chip Growth Fund is a growth fund.

The Fidelity Equity Income Fund, the objective of which is to seek reasonable income and also to consider the potential for capital appreciation. The fund seeks a yield that exceeds the yield on the securities comprising the Standard and Poor s 500 index and normally invests at least 80% of its total assets in income-producing equity securities, while potentially investing in other types of equity securities and debt securities, including lower-quality debt securities. The prospectus for the Fidelity Equity Income Fund indicates that the fund is a growth and income fund.

The Fidelity Low-Priced Stock Fund, the objective of which is to seek capital appreciation by normally investing at least 80% of total assets in low-priced common stocks ($35 per share or less at time of purchase), which can lead to investments in small and medium-sized companies. The prospectus for the Fidelity Low-Priced Stock Fund indicates that the fund is a growth mutual fund.

The Fidelity Freedom Income Fund, the objective of which is to seek high current income and, secondarily, to seek capital appreciation. The fund invests in a combination of Fidelity equity, fixed-income, and money market funds and allocates its assets among these funds according to a stable asset allocation strategy designed for investors already in retirement. The prospectus for the Fidelity Freedom Income Fund indicates that the fund is an asset allocation mutual fund.

The Fidelity Freedom 2000 Fund, the objective of which is to seek high total return, by investing in a combination of Fidelity equity, fixed-income, and money market funds and allocating its assets among these funds according to an asset allocation strategy that becomes increasingly conservative as Freedom 2000 approaches its target retirement date. The fund is targeted to investors expected to retire around the year 2000.

The Fidelity Freedom 2010 Fund, the objective of which is to seek high total return, by investing in a combination of Fidelity equity, fixed-income, and money market funds and allocating its assets among these funds according to an asset allocation strategy that becomes increasingly conservative as Freedom 2010 approaches its target retirement date. Targeted to investors expected to retire around the year 2010.

The Fidelity Freedom 2020 Fund, the objective of which is to seek high total return, by investing in a combination of Fidelity equity, fixed-income, and money market funds and allocating its assets among these funds according to an asset allocation strategy that becomes increasingly conservative as Freedom 2020 approaches its target retirement date. Targeted to investors expected to retire around the year 2020.

The Fidelity Freedom 2030 Fund, the objective of which is to seek high total return, by investing in a combination of Fidelity equity, fixed-income, and money market funds and allocating its assets among these funds according to an asset allocation strategy that becomes increasingly conservative as Freedom 2030 approaches its target retirement date. Targeted to investors expected to retire around the year 2030.

The Fidelity Freedom 2040 Fund, the objective of which is to seek high total return, by investing in a combination of Fidelity equity, fixed-income, and money market funds and allocating its assets among these funds according to an asset allocation strategy that becomes increasingly conservative as Freedom 2040 approaches its target retirement date. Targeted to investors expected to retire around the year 2040.

The Fidelity U.S. Equity Index Commingled Pool, the objective of which is to buy stocks in companies which compose the S&P 500 Stock Price Index in order to mimic the return of the S&P 500 index.

The Fidelity Diversified International Fund, the objective of which is to invest primarily in foreign common stocks in order to seek capital growth. The prospectus for the Fidelity Diversified International Fund indicates that the fund is a growth mutual fund that invests internationally.

The PIMCO Total Return Fund, the objective is to provide fixed income total returns that exceed general bond market indices. The prospectus for this fund indicates that it invests in U.S. government, corporate, mortgage and foreign bonds. The prospectus for the PIMCO Total Return Fund indicates that the fund is an income mutual fund.

The Fidelity Small Cap Stock Fund, the objective is to provide a long-term growth of capital. Normally invests at least 80% of total assets in common stocks of companies with small market capitalizations with strong growth prospects similar to companies in the Russell 2000 Index or the S&P Small Cap 600 Index. The prospectus for the Fidelity Small Cap Stock Fund indicates that the fund is a growth mutual fund.

The T. Rowe Price Mid-Cap Growth Fund, the objective is to provide long-term capital appreciation. Invests in mid-cap stocks offering the potential for above-average earnings growth. The prospectus for the T. Rowe Price Mid-Cap Growth Fund indicates that the fund is a growth mutual fund.

The T. Rowe Price Mid-Cap Value Fund, the objective is to provide long-term capital appreciation by investing primarily in mid-sized companies believed by the fund s manager to be undervalued. The prospectus for the T. Rowe Price Mid-Cap Value Fund indicates that the fund is a mid-cap value mutual fund.

Participants may transfer the value of their own cumulative contributions, in any whole percentage or dollar amount, among investments, and change their investment elections on a daily basis. Participants may change their payroll contribution elections coinciding with company payroll periods. Excluding their pre-tax contributions, participants may make an unlimited number of withdrawals of their interest in the Plan, including company matching contributions, which are immediately vested. Pre-tax contributions are not eligible for withdrawal by participants not yet age 59-1/2, except under hardship as defined by the Plan or severance of employment.

Participants may borrow from their savings plan accounts, a minimum of $1,000 but no more than the lesser of $50,000 or 50% of their account balance. Effective January 1, 2003, loan terms range from 12 months to 60 months, or any monthly increment in-between. Prior to January 1, 2003, loan terms ranged from 6 months to 54 months. Interest rates, fixed for the life of the loan, are calculated by adding 1% to the prime rate, as reported in the Eastern edition of the Wall Street Journal, in effect as of the first business day of the calendar quarter in which the loan is taken. Active employees make principal and interest payments through payroll deductions. Retirees/surviving spouses make monthly payments using a coupon book. Participant loans and the accrued interest are collateralized by the account balance and the defaulted amount is subjected to income taxes and possibly penalty taxes.

2. ACCOUNTING POLICIES

The accompanying financial statements are prepared on the accrual basis of accounting.

Investments have been recorded based on the trade-date and are reported in the Statements of Net Assets Available for Benefits at fair value or contract value. The AEP Stock Fund investments are valued at year-end quoted AEP common stock closing prices. The year-end valuations for the various Fidelity funds are based on the closing market prices for the underlying securities as provided by the Trustee. The Managed Income Fund contracts are valued at book value, which is equal to cost plus interest. All participant loans are valued at cost, which approximates fair value at the time the loan is processed.

Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. These amounts are reinvested by the Trustee in the same funds which generated such income with the exception of the AEP Stock Fund which pays out or reinvests dividends at the participants discretion. Investment management fees are accounted for as a reduction in net investment income. All other Plan administration expenses are paid by the employer with the exception of per transaction charges for withdrawals and minimum required distributions which are borne by the participants.

Distributions are recorded when paid. There were no amounts due to participants who requested distributions from the Plan as of December 31, 2003 and 2002.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Investment securities, in general, are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the Plan's assets.

3. INVESTMENT CONTRACT VALUATION

The Plan has a Managed Income Fund with Fidelity as trustee, which invests primarily in fully benefit responsive investment contracts. Fidelity maintains the assets in a custodian account. There are no reserves against contract value for credit risk of the contract issuer or otherwise. The account is credited with earnings on the underlying investments and charged for Plan withdrawals (credited interest rates ranged from 6.60% to 2.21% and 7.53% to 2.21% for 2003 and 2002, respectively). The average yield was 4.83% and 4.61% for fiscal years ending December 31, 2003 and 2002, respectively. The investment is recorded in the financial statements based on the contract value of the underlying investment contracts, which approximates fair value, as reported to the Plan by Fidelity. Contract value represents contributions made under the contract, plus earnings, less withdrawals.

4. INVESTMENTS EXCEEDING 5% OF PLAN NET ASSETS

Investments exceeding five percent of net assets as of December 31, 2003 and 2002 were:

	Fair Value	
	2003	**2002**
AEP Common Stock	$470,722,315	$478,716,705
Fidelity Blue Chip Growth Fund	$260,146,938	$208,225,489
Fidelity US Equity Index Pool	$201,192,729	$163,332,010
Fidelity Managed Income Portfolio II	$222,719,515	$212,009,396
Fidelity OTC Portfolio	$131,911,935	-

5. NET APPRECIATION (DEPRECIATION) IN FAIR VALUE OF INVESTMENTS

During 2003 and 2002, the Plan s investments (including investments purchased, sold as well as held during the year) appreciated (depreciated) in value by $262,171,920 and $(313,854,052), respectively, as follows:

	December 31,	
	2003	**2002**
Investments at Fair Value:		
American Electric Power Company, Inc. - Common Stock	$52,597,832	$(156,578,770)
Investments at Estimated Fair Value:		
Registered Investment Companies and Group Annuity, Bank Investment and Other Fixed Income Contracts	209,574,088	(157,275,282)
Total Appreciation (Depreciation)	$262,171,920	$(313,854,052)

6. FEDERAL INCOME TAX

The Internal Revenue Service (IRS) has determined that the Plan meets the requirements of Section 401(a) of the Internal Revenue Code (the Code); therefore, the Plan s Trust is exempt from federal income tax pursuant to Section 501(a) of the Code.

The Plan obtained its latest determination letter on November 13, 1996, in which the IRS stated that the Plan, as then designed, was in compliance with the applicable requirements of the Code. The Plan has been amended since receiving the determination letter. However, the Plan Administrator believes that the Plan is currently designed and being operated in compliance with the applicable requirements of the Code. There is currently pending with the IRS an application for an updated determination letter for the Plan, as currently amended. The Company may timely further amend the Plan so that it remains in compliance with the requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan s financial statements.

Under current income tax laws and regulations, participants are not subject to federal income tax on the employer contributions to their accounts or on the accumulated earnings on employee and Company contributions until such amounts are distributed to participants. Employees have the option to make contributions to the Plan on a pre-tax basis, in which case federal income tax is deferred until such amounts are distributed.

7. **PLAN TERMINATION**

Although it has not expressed any intent to do so, the Company has the right under the Plan to discontinue its contributions at any time and to terminate the Plan subject to the provisions of ERISA. In the event of Plan termination, participants remain 100 percent vested in their accounts.

8. **RELATED-PARTY TRANSACTIONS**

Certain Plan investments are shares of mutual funds managed by Fidelity Investments. Fidelity is the trustee as defined by the Plan and, therefore, these transactions qualify as party-in-interest transactions.

9. **LEGAL ISSUES**

In the fourth quarter of 2002 and the first quarter of 2003, three lawsuits were filed on behalf of the Plan against American Electric Power Company, Inc., certain AEP executives, and ERISA Plan Administrator alleging violations of ERISA in the selection of AEP stock as an investment alternative, breach of fiduciary duties and breach of contract and in the allocation of assets to AEP stock. The ERISA actions are pending in Federal District Court, Columbus, Ohio. The cases have been consolidated and the plaintiffs have filed a Consolidated Amended Complaint containing substantially similar allegations as were in the original complaints. The Defendants have filed a motion to dismiss all claims made by the Plaintiffs and otherwise intend to vigorously defend against these actions. The ultimate outcome of these cases cannot be determined at this stage of the proceedings.

AMERICAN ELECTRIC POWER SYSTEM
RETIREMENT SAVINGS PLAN

SUPPLEMENTAL SCHEDULE OF ASSETS HELD AS OF DECEMBER 31, 2003

	NUMBER OF SHARES/UNITS	FAIR/CONTRACT VALUE	COST
MANAGED INCOME FUND:			
Fixed Income Contract - Bank of America variable annual yield with an indeterminate maturity date		$86,784,058	$86,784,058
Commingled Pool Fidelity Managed Income Portfolio II variable annual yield with an indeterminate maturity date		222,719,515	222,719,515
Commingled Pool Key Bank EPL variable annual yield with an indeterminate maturity date		78,687,788	78,687,788
Group Annuity Contract - Metropolitan Life Inc. Company 4.58% effective annual yield with an indeterminate maturity date		48,183,389	48,183,389
Group Annuity Contract - Monumental Life Insurance Company 5.65% effective annual yield with an indeterminate maturity date		17,135,675	17,135,675
Group Annuity Contract - Morgan Guaranty Act variable annual yield with an indeterminate maturity date		86,786,950	86,786,950
Group Annuity Contract - New York Life Insurance Company 5.44% effective annual yield with an indeterminate maturity date		17,052,469	17,052,469
Group Annuity Contract - Protective Life Insurance Company 6.39% effective annual yield to April 30, 2004		11,978,921	11,978,921
Group Annuity Contract - Prudential Insurance Company America 6.00% effective annual yield to April 30, 2004		11,849,472	11,849,472
Group Annuity Contract - Rabobank Nederland variable annual yield with an			

Basic and Diluted:

Income (loss) from continuing operations attributable to Prudential Financial, Inc. per share of Class B Stock	$	4.00	$	(10.00)
Income from discontinued operations, net of taxes				

	NUMBER OF SHARES/UNITS	FAIR/CONTRACT VALUE	COST
Net income (loss) attributable to Prudential Financial, Inc. per share of Class B Stock	$ 4.00		$ (10.00)

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statement of Equity

Three Months Ended March 31, 2009 (in millions)

	Prudential Financial, Inc. Equity								
	Common Stock	Class B Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held in Treasury	Accumulated Other Comprehensive 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
Contributions from noncontrolling interests								276	276
Stock-based compensation programs			(74)	(9)	110		27		27
Impact of adoption of FSP FAS 115-2 and FAS 124-2, net of taxes				686		(686)			
Comprehensive loss:									
Net income				14			14	(11)	3
Other comprehensive loss, net of tax						(546)	(546)	(40)	(586)
Total comprehensive loss							(532)	(51)	(583)
Balance, March 31, 2009	$ 6	$	$ 21,927	$ 11,117	$ (11,545)	$ (8,575)	$ 12,930	$ 576	$ 13,506

See Notes to Unaudited Interim Consolidated Financial Statements

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PRUDENTIAL FINANCIAL, INC.

Unaudited Interim Consolidated Statements of Cash Flows

Three Months Ended March 31, 2009 and 2008 (in millions)

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3	$ 84
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses, net	(145)	912
Policy charges and fee income	(450)	(277)
Interest credited to policyholders account balances	1,169	637
Depreciation and amortization	142	106
Gains on trading account assets supporting insurance liabilities, net	(148)	
Change in:		
Deferred policy acquisition costs	624	(254)
Future policy benefits and other insurance liabilities	(340)	1,057
Trading account assets supporting insurance liabilities and other trading account assets	539	(87)
Income taxes	322	(402)
Other, net	820	(408)
Cash flows from operating activities	2,536	1,368
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale/maturity/prepayment of:		
Fixed maturities, available for sale	13,174	23,856
Fixed maturities, held to maturity	62	49
Trading account assets supporting insurance liabilities and other trading account assets	8,234	5,813
Equity securities, available for sale	243	869
Commercial mortgage and other loans	834	535
Policy loans	427	380
Other long-term investments	290	302
Short-term investments	6,868	9,569
Payments for the purchase/origination of:		
Fixed maturities, available for sale	(13,472)	(25,643)
Fixed maturities, held to maturity	(573)	(9)
Trading account assets supporting insurance liabilities and other trading account assets	(9,114)	(5,982)
Equity securities, available for sale	(194)	(1,036)
Commercial mortgage and other loans	(775)	(1,927)
Policy loans	(446)	(361)
Other long-term investments	(419)	(795)
Short-term investments	(6,104)	(10,272)
Other, net	(66)	106
Cash flows used in investing activities	(1,031)	(4,546)
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholders account deposits	8,391	9,501
Policyholders account withdrawals	(6,994)	(4,963)
Net change in securities sold under agreements to repurchase and cash collateral for loaned securities	(410)	(3,867)
Cash dividends paid on Common Stock	(31)	(75)
Net change in financing arrangements (maturities 90 days or less)	(1,906)	760
Common Stock acquired		(869)
Common Stock reissued for exercise of stock options	9	29
Proceeds from the issuance of debt (maturities longer than 90 days)	964	2,110
Repayments of debt (maturities longer than 90 days)	(2,257)	(1,010)
Excess tax benefits from share-based payment arrangements		12
Other, net	59	(129)

Cash flows from (used in) financing activities	(2,175)	1,499
Effect of foreign exchange rate changes on cash balances	(22)	379
NET DECREASE IN CASH AND CASH EQUIVALENTS	(692)	(1,300)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	15,028	11,060
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 14,336	$ 9,760
NON-CASH TRANSACTIONS DURING THE PERIOD		
Impact on Company s investment in Wachovia Securities due to addition of A.G. Edwards business, net of tax	$	$ 977
Treasury Stock shares issued for stock-based compensation programs	$ 96	$ 84

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

Prudential Financial, Inc. (Prudential Financial) and its subsidiaries (collectively, Prudential or the Company) provide a wide range of insurance, investment management, and other financial products and services to both individual and institutional customers throughout the United States and in many other countries. Principal products and services provided include life insurance, annuities, retirement-related services, mutual funds, investment management, and real estate services. The Company has organized its principal operations into the Financial Services Businesses and the Closed Block Business. The Financial Services Businesses operate through three operating divisions: U.S. Retirement Solutions and Investment Management, U.S. Individual Life and Group Insurance, and International Insurance and Investments. The Company s real estate and relocation services business as well as businesses that are not sufficiently material to warrant separate disclosure and businesses to be divested, including the Company s investment in the retail securities brokerage joint venture Wachovia Securities Financial Holdings, LLC (Wachovia Securities), are included in Corporate and Other operations within the Financial Services Businesses. The Closed Block Business, which includes the Closed Block (see Note 5), 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. 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, 2008.

Use of Estimates

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

The most significant estimates include those used in determining deferred policy acquisition costs and related amortization; measurement of goodwill and any related impairment; valuation of business acquired and its amortization; valuation of investments including derivatives (in the absence of quoted market values) 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; reserves for contingent liabilities, including reserves for losses in connection with unresolved legal matters.

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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. ACCOUNTING POLICIES AND PRONOUNCEMENTS

Share-Based Payments

The Company issues employee share-based compensation awards, under a plan authorized by the Board of Directors, that are subject to specific vesting conditions. Generally the awards vest ratably over a three-year period, the nominal vesting period, or at the date the employee retires (as defined by the plan), if earlier. The Company accounts for those awards granted between (a) the adoption of the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123 Accounting for Stock Based Compensation on January 1, 2003, and (b) the adoption on January 1, 2006 of SFAS No. 123(R) which specify that an employee vests in the award upon retirement, using the nominal vesting period approach. Under this approach, the Company records compensation expense over the nominal vesting period. If the employee retires before the end of the nominal vesting period, any remaining unrecognized compensation cost is recognized at the date of retirement.

Upon the adoption of SFAS No. 123(R), the Company revised its approach to the recognition of compensation costs for awards granted to retirement-eligible employees and awards that vest when an employee becomes retirement-eligible to apply the non-substantive vesting period approach to all new share-based compensation awards granted after January 1, 2006. Under this approach, all compensation cost is recognized on the date of grant for awards issued to retirement-eligible employees, or over the period from the grant date to the date retirement eligibility is achieved, if that is expected to occur during the nominal vesting period.

If the Company had accounted for all share-based compensation awards granted after January 1, 2003 under the non-substantive vesting period approach, net income of the Financial Services Businesses for the three months ended March 31, 2008 would have been increased by $0.8 million, with no reportable impact to the earnings per share of Common Stock, on both a basic and diluted basis. There is no impact to net income for 2009, as all compensation expense relating to share-based compensation awards accounted for under the nominal vesting period approach had been recognized in net income by December 31, 2008.

Investments in Debt and Equity Securities

Fixed maturities are comprised of bonds, notes and redeemable preferred stock. Fixed maturities classified as available for sale are carried at fair value. See Note 11 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 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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

the retrospective method. For asset-backed and mortgage-backed securities rated below AA, the effective yield is adjusted prospectively for any changes in estimated cash flows. See the discussion below on realized investment gains and losses for a description of the accounting for impairments as well as the impact of the Company s adoption of FASB Staff Position (FSP) FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. 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, future policy benefits and policyholders dividends that would result from the realization of unrealized gains and losses, are included in Accumulated other comprehensive income (loss).

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

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

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

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

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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) issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. The Company early adopted this guidance on January 1, 2009. This guidance indicates that an other-than-temporary impairment must be recognized in earnings for a debt security in an unrealized loss position when an entity either (a) has the intent to sell the debt security or (b) more likely than not will be required to sell the debt security before its anticipated recovery. Prior to the adoption of this guidance the Company was required to record an other-than-temporary impairment for a debt security unless it could assert that it had both the intent and ability to hold the security for a period of time sufficient to allow for a recovery in its fair value to its amortized cost basis. For all debt securities in unrealized loss positions that do not meet either of these two criteria, FSP FAS 115-2 and FAS 124-2 requires that the Company analyze its ability to recover the amortized cost by comparing the net present value of projected future cash flows with the amortized cost of the security. The net present value is calculated by discounting the Company s best estimate of projected future cash flows at the effective interest rate implicit in the debt security prior to impairment. The Company may use the estimated fair value of collateral as a proxy for the net present value if it believes that the security is dependent on the liquidation of collateral for recovery of its investment. If the net present value is less than the amortized cost of the investment, an other-than-temporary impairment is recorded.

Under FSP FAS 115-2 and FAS 124-2, 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 FSP FAS 115-2 and FAS 124-2, 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 including prepayment assumptions, are based on data from widely accepted third-party data sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral including default rates, recoveries and changes in value. For all other debt

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

securities, cash flow estimates are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default. The Company has developed these estimates using information based on its historical experience as well as using market observable data, such as industry analyst reports and forecasts, sector credit ratings and other data relevant to the collectability of a security.

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

Goodwill

The Company tests goodwill for impairment annually as of December 31 and more frequently if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. A reporting unit is an operating segment or a unit one level below the operating segment. The Company evaluated the goodwill of the Retirement segment s full service business for potential impairment as of March 31, 2009 and determined that a goodwill impairment did not exist, as the fair value of the business, which was calculated by applying a discounted cash flow analysis to its expected future earnings, was greater than its carrying value. The carrying value of the Retirement segment s full service business goodwill was $444 million as of March 31, 2009.

Derivative Financial Instruments

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

Derivatives are used in a non-dealer capacity in insurance, investment and international businesses as well as treasury operations to manage the characteristics of the Company s asset/liability mix, to manage the interest rate and currency characteristics of assets or liabilities and to mitigate the risk of a diminution, upon translation to U.S. dollars, of expected non-U.S. earnings and net investments in foreign operations resulting from unfavorable changes in currency exchange rates. Additionally, derivatives may be used to seek to reduce exposure to interest rate, credit, foreign currency and equity risks associated with assets held or expected to be purchased or sold, and liabilities incurred or expected to be incurred. As discussed in detail below and in Note 13, all realized and unrealized changes in fair value of non-dealer related derivatives, with the exception of the effective portion of cash flow hedges and effective hedges of net investments in foreign operations, are recorded in current earnings. Cash flows from these derivatives are reported in the operating, investing, or financing activities sections in the Consolidated Statements of Cash Flows.

Derivatives are also used in a derivative dealer or broker capacity in the Company s securities operations to meet the needs of clients by structuring transactions that allow clients to manage their exposure to interest rates,

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

foreign exchange rates, indices or prices of securities and commodities and similarly in a dealer or broker capacity through the operation of certain hedge portfolios. Realized and unrealized changes in fair value of derivatives used in these dealer related operations are included in Asset management fees and other income in the periods in which the changes occur. Cash flows from such derivatives are reported in the operating activities section of the Consolidated Statements of Cash Flows.

Derivatives are recorded either as assets, within Other trading account assets, or Other long-term investments, or as liabilities, within Other liabilities, in the Consolidated Statements of Financial Position, except for embedded derivatives which are recorded in the Consolidated Statements of Financial Position with the associated host contract. The Company nets the fair value of all derivative financial instruments with counterparties for which a master netting arrangement has been executed pursuant to FASB Interpretation (FIN) No. 39 and FSP No. 39-1.

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

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

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

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

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

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

Income Taxes

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

statute of limitations for the 2002 and 2003 tax years is set to expire in 2009. It is reasonably possible that the total net amount of unrecognized tax benefits will decrease anywhere from $0 to $200 million within the next 12 months due to the expiration of the statute of limitations. Taxable years 2004 through 2008 are still open for IRS examination.

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

In August 2007, the IRS, released Revenue Ruling 2007-54, which included, among other items, guidance on the methodology to be followed in calculating the DRD related to variable life insurance and annuity contracts. In September 2007, the IRS released Revenue Ruling 2007-61. Revenue Ruling 2007-61 suspends Revenue Ruling 2007-54 and informs 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. These activities had no impact on the Company s 2008 or 2009 results. 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.

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 years, the Company has agreed to such adjustment. Nevertheless, the Company believes that its return position is technically correct. Therefore, the Company intends to file a protective refund claim to recover the taxes associated with the agreed upon adjustment and to pursue such other actions as appropriate. The report, with the adjustment, was submitted to the Joint Committee on Taxation in October 2008. The Company was advised on January 2, 2009 that the Joint Committee completed its consideration of the report and has taken no exception to the conclusions reached by the IRS. Accordingly, the final report was processed and a $157 million refund was received in February 2009. The statute of limitations for these years is set to expire during 2009. These activities had no impact on the Company s 2008 or 2009 results.

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Accounting Pronouncements Adopted

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments. This FSP amends the other-than-temporary impairment guidance for debt securities and expands the presentation and disclosure requirements of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP also requires that the required annual disclosures for debt and equity securities be made for interim reporting periods. This FSP does not amend existing recognition and measurement guidance related to other-than-temporary impairments of equity securities. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009. The Company early adopted this guidance effective January 1, 2009, which resulted in a net after-tax increase to retained earnings and decrease to Accumulated other comprehensive income (loss) of $686 million, as of January 1, 2009. The disclosures required by this FSP are provided in Note 4. See Investments in Debt and Equity Securities above for more information.

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly. This FSP provides additional guidance for estimating fair value in accordance with FASB Statement No. 157, Fair Value Measurements, when the volume and level of activity for the asset or liability have significantly decreased. This FSP also includes guidance on identifying circumstances that indicate a transaction is not orderly. This FSP also amends the disclosure requirements in interim and annual periods. This FSP is effective for interim and annual reporting periods ending after June 15, 2009, and shall be applied prospectively. Early adoption is permitted for periods ending after March 15, 2009. The Company s early adoption of this guidance effective January 1, 2009 did not have a material effect on the Company s consolidated financial position or results of operations. The disclosures required by this FSP are provided in Note 11.

In April 2009, the FASB issued FSP FAS 141(R)-1, Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies. This FSP requires an asset acquired or liability assumed in a business combination that arises from a contingency to be recognized at fair value at the acquisition date, if the acquisition date fair value of that asset or liability can be determined during the measurement period. If the acquisition date fair value of an asset acquired or liability assumed in a business combination that arises from a contingency cannot be determined during the measurement period, the asset or liability shall be recognized at the acquisition date using the guidance in SFAS No. 5, Accounting for Contingencies. This FSP also amends disclosure requirements. This FSP is effective for assets or liabilities arising from contingencies in business combinations for which the acquisition date is on or after January 1, 2009. The Company s adoption of this guidance effective January 1, 2009 did not have a material effect on the Company s consolidated financial position or results of operations.

In September 2008, the FASB Emerging Issues Task Force (EITF) reached consensus on EITF Issue No. 08-5, Issuer s Accounting for Liabilities Measured at Fair Value with a Third-Party Credit Enhancement. The consensus concluded that (a) the issuer of a liability (including debt) with a third-party credit enhancement that is inseparable from the liability, shall not include the effect of the credit enhancement in the fair value measurement of the liability; (b) the issuer shall disclose the existence of any third-party credit enhancement on such liabilities, and (c) in the period of adoption the issuer shall disclose the valuation techniques used to measure the fair value of such liabilities and disclose any changes from valuation techniques used in prior periods. The Company s adoption of this guidance on a prospective basis effective January 1, 2009 did not have a material effect on the Company s consolidated financial position or results of operations.

In June 2008, the FASB EITF reached consensus on the following issues contained in EITF Issue No. 07-5, Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity s Own Stock: (1) how

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

an entity should evaluate whether an instrument (or embedded feature) is indexed to the entity s own stock; (2) how the currency in which the strike price of an equity-linked financial instrument (or embedded equity-linked feature) is denominated affects the determination of whether the instrument is indexed to the entity s own stock; (3) how an issuer should account for equity-linked financial instruments issued to investors for purposes of establishing a market-based measure of the grant-date fair value of employee stock options. This guidance clarifies what instruments qualify as indexed to an entity s own stock and are thereby exempt from requirements of FASB Statement No. 133, Accounting for Derivative Instruments and Hedging Activities, and eligible for equity classification under EITF Issue No. 00-19, Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company s Own Stock. The Company s adoption of this guidance effective January 1, 2009 did not have a material effect on the Company s consolidated financial position or results of operations.

In June 2008, the FASB issued FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. This FSP states that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and shall be included in the computation of earnings per share (EPS) pursuant to the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, Earnings per Share. This FSP is effective for fiscal years and interim periods beginning after December 15, 2008, and must be applied retrospectively to all EPS data presented. The Company s adoption of this guidance effective January 1, 2009 had no reportable impact on earnings per basic share of Common Stock and earnings per diluted share of Common Stock for the three months ended March 31, 2008. The Company s adoption of this guidance effective January 1, 2009 reduced earnings per basic share of Common Stock for the years ended December 31, 2008, 2007, 2006, 2005 and 2004 by $0.01, $0.05, $0.06, $0.06 and $0.02, respectively, and earnings per diluted share of Common Stock by $0.01, $0.01, $0.02, $0.03 and $0.01, respectively.

In May 2008, the FASB issued FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). This FSP, which is effective for fiscal years and interim periods beginning after December 15, 2008 and must be applied retrospectively, addresses the accounting for certain convertible debt instruments including those that have been issued by the Company. It requires bifurcation of the instrument into a debt component that is initially recorded at fair value and an equity component. The difference between the fair value of the debt component and the initial proceeds from issuance of the instrument is recorded as a component of equity within additional paid-in capital. The liability component of the debt instrument is accreted to par using the effective yield method, with the accretion being reported as a component of interest expense. Bond issuance costs are allocated to the debt and equity components in proportion to the debt proceeds. The Company s adoption of this guidance effective January 1, 2009 reduced net income for the three months ended March 31, 2008 by $9 million or $0.02 per share of Common Stock, on both a basic and diluted basis. The Company s adoption of this guidance effective January 1, 2009 reduced net income for the years ended December 31, 2008, 2007, 2006 and 2005 by $44 million, $42 million, $36 million and $5 million, or $0.10, $0.09, $0.07 and $0.01 per share of Common Stock, on both a basic and diluted basis, respectively.

In April 2008, the FASB issued FSP FAS 142-3, Determination of the Useful Life of Intangible Assets. This FSP amends the list of factors an entity should consider in developing renewal or extension assumptions used to determine the useful life of recognized intangible assets under SFAS No. 142. The new guidance applies to (1) intangible assets that are acquired individually or with a group of other assets and (2) intangible assets acquired in both business combinations and asset acquisitions. This FSP is effective for fiscal years and interim periods beginning after December 15, 2008, with the guidance for determining the useful life of a recognized intangible asset being applied prospectively to intangible assets acquired after the effective date and the

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disclosure requirements being applied prospectively to all intangible assets recognized as of, and after, the effective date. The Company s adoption of this guidance effective January 1, 2009 did not have a material effect on the Company s consolidated financial position or results of operations.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities an amendment of SFAS No. 133. This statement amends and expands the disclosure requirements for derivative instruments and hedging activities by requiring companies to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity s financial position, financial performance, and cash flows. The Company s adoption of this guidance effective January 1, 2009 did not have a material effect on the Company s consolidated financial position or results of operations. The required disclosures are provided in Note 13.

In February 2008, the FASB issued FSP FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions. The FSP provides recognition and derecognition guidance for a repurchase financing transaction, which is a repurchase agreement that relates to a previously transferred financial asset between the same counterparties, that is entered into contemporaneously with or in contemplation of, the initial transfer. The FSP is effective for fiscal years beginning after November 15, 2008. The Company s adoption of this guidance on a prospective basis effective January 1, 2009 did not have a material effect on the Company s consolidated financial position or results of operations.

In February 2008, the FASB issued FSP FAS 157-2, Effective Date of FASB Statement No. 157. This FSP applies to nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). FSP FAS 157-2 delays the effective date of SFAS No. 157 for these items to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The Company s adoption of this guidance effective January 1, 2009 did not have a material effect on the Company s consolidated financial position or results of operations.

In December 2007, the FASB issued SFAS No. 141R, Business Combinations. This statement, which addresses the accounting for business acquisitions, is effective for fiscal years beginning on or after December 15, 2008, with early adoption prohibited, and generally applies to business acquisitions completed after December 31, 2008. Among other things, the new standard requires that all acquisition-related costs be expensed as incurred, and that all restructuring costs related to acquired operations be expensed as incurred. This new standard also addresses the current and subsequent accounting for assets and liabilities arising from contingencies acquired or assumed and, for acquisitions both prior and subsequent to December 31, 2008, requires the acquirer to recognize changes in the amount of its deferred tax benefits that are recognizable because of a business combination either in income from continuing operations in the period of the combination or directly in contributed capital, depending on the circumstances. The Company s adoption of this guidance effective January 1, 2009 did not have a material effect on the Company s consolidated financial position or results of operations, but may have an effect on the accounting for future business combinations.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS No. 160 changes the accounting for minority interests, which will be recharacterized as noncontrolling interests and classified by the parent company as a component of equity. Upon adoption, SFAS No. 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests and prospective adoption for all other requirements. The Company s adoption of this guidance effective January 1, 2009 did not have a material effect on the Company s consolidated financial position or results of operations, but did affect financial statement presentation and disclosure. Noncontrolling interests, previously

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

reported as a liability, are now required to be reported as a separate component of equity on the balance sheet, and totaled $341 million at March 31, 2008 and totaled $351 million, $409 million, $329 million, $110 million, and $97 million at December 31, 2008, 2007, 2006, 2005 and 2004, respectively. In addition, income attributable to the noncontrolling interests, which was previously reported as an expense in General and administrative expenses and reflected within Income from Continuing Operations is now reported as a separate amount below Net Income, and totaled $24 million for the three months ended March 31, 2008 and totaled $36 million, $67 million, $25 million, $21 million and $13 million for the years ended December 31, 2008, 2007, 2006, 2005 and 2004, respectively.

Recent Accounting Pronouncements

In April 2009, the FASB issued FSP FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments. This FSP requires disclosures about fair value of financial instruments for interim reporting periods of publicly traded companies as well as in annual financial statements. This FSP also amends the disclosure requirements. This FSP is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted. The Company will adopt this guidance beginning with the interim period ending June 30, 2009. The Company s adoption of this guidance is not expected to have a material effect on the Company s consolidated financial position or results of operations, but will affect interim disclosures.

3. ACQUISITIONS AND DISPOSITIONS

Acquisition of Hyundai Investment and Securities Co., Ltd.

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

Additional Investment in UBI Pramerica

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Discontinued Operations

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
	(in millions)	
Equity sales, trading and research operations	$	$ (1)
Real estate investments sold or held for sale	2	1
International securities operations		1
Income from discontinued operations before income taxes	2	1
Income tax expense	1	
Income from discontinued operations, net of taxes	$ 1	$ 1

The Company s Unaudited Interim Consolidated Statements of Financial Position include total assets and total liabilities related to discontinued businesses of $65 million and $19 million, respectively, as of March 31, 2009 and $66 million and $21 million, respectively, as of December 31, 2008. Charges recorded in connection with the disposals of businesses include estimates that are subject to subsequent adjustment. It is possible that such adjustments might be material to future net results of operations of a particular quarterly or annual period.

4. INVESTMENTS

Fixed Maturities and Equity Securities

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

	March 31, 2009				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Other-than-temporary impairments in AOCI(3)
			(in millions)		
Fixed maturities, available for sale					

U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 5,532	$ 903	$ 40	$ 6,395	$
Obligations of U.S. states and their political subdivisions	865	40	3	902	
Foreign government bonds	31,547	1,671	123	33,095	(3)
Corporate securities	89,863	1,319	9,265	81,917	(166)
Asset-backed securities(1)	15,753	117	5,424	10,446	(1,595)
Commercial mortgage-backed securities	11,601	15	1,969	9,647	5
Residential mortgage-backed securities(2)	11,845	492	199	12,138	(15)
Total fixed maturities, available for sale	$ 167,006	$ 4,557	$ 17,023	$ 154,540	$ (1,774)
Equity securities, available for sale	$ 6,751	$ 235	$ 1,435	$ 5,551	

(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, from January 1, 2009, were not included in earnings under FSP FAS 115-2 and FAS 124-2. Amount excludes $184 million of net unrealized losses on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.

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	March 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	$ 999	$ 55	$ 1	$ 1,053	$
Corporate securities	830	3	109	724	
Asset-backed securities(1)	853	11	3	861	
Commercial mortgage-backed securities	437	18	17	438	
Residential mortgage-backed securities(2)	1,542	21	10	1,553	
Total fixed maturities, held to maturity	$ 4,661	$ 108	$ 140	$ 4,629	$

(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, from January 1, 2009, were not included in earnings under FSP FAS 115-2 and FAS 124-2.

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

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (in millions)	Fair Value
Fixed maturities, held to maturity				
Foreign government bonds	$ 1,093	$ 115	$	$ 1,208
Corporate securities	867	9	128	748
Asset-backed securities	782	25	1	806

Commercial mortgage-backed securities	11			11
Residential mortgage-backed securities	1,055	8	4	1,059
Total fixed maturities, held to maturity	$ 3,808	$ 157	$ 133	$ 3,832

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The amortized cost and fair value of fixed maturities by contractual maturities at March 31, 2009, are as follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)		(in millions)	
Due in one year or less	$ 9,113	$ 8,918	$ 10	$ 10
Due after one year through five years	34,643	32,802		
Due after five years through ten years	31,980	29,586	23	24
Due after ten years	52,071	51,003	1,796	1,743
Asset-backed securities	15,753	10,446	853	861
Commercial mortgage-backed securities	11,601	9,647	437	438
Residential mortgage-backed securities	11,845	12,138	1,542	1,553
Total	$ 167,006	$ 154,540	$ 4,661	$ 4,629

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

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

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
	(in millions)	
Fixed maturities, available for sale:		
Proceeds from sales	$ 8,643	$ 17,821
Proceeds from maturities/repayments	4,025	5,881
Gross investment gains from sales, prepayments and maturities	363	297
Gross investment losses from sales and maturities	(117)	(184)
Fixed maturities, held to maturity:		
Proceeds from maturities/repayments	$ 62	$ 49
Gross investment gains from prepayments		
Fixed maturity and equity security impairments:		
Total writedowns for other-than-temporary impairment losses on fixed maturities	$ (1,855)	$ (539)
Portion of loss recognized in other comprehensive income (before taxes)	1,250	
Net writedowns for other-than-temporary impairment losses on fixed maturities recognized in earnings	$ (605)	$ (539)

Writedowns for other-than-temporary impairment losses on equity securities	$ (493)	$ (100)

As discussed in Note 2, a portion of certain other-than-temporary impairment (OTTI) losses on fixed maturity securities are recognized in Other comprehensive income (loss) (OCI). The net amount recognized in earnings (credit loss impairments) represents the difference between the amortized cost of the security and

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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 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	
	(in millions)
Balance, December 31, 2008	$
Credit losses remaining in retained earnings related to adoption of FSP FAS 115-2 and FAS 124-2	658
Credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(1)
Credit loss impairments previously recognized on securities impaired to fair value during the period(1)	
Credit loss impairment recognized in the current period on securities not previously impaired	394
Additional credit loss impairments recognized in the current period on securities previously impaired	155
Increases due to the passage of time on previously recorded credit losses	2
Accretion of credit loss impairments previously recognized due to an increase in cash flows expected to be collected	(1)
Balance, March 31, 2009	$ 1,207

(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:

	March 31, 2009		**December 31, 2008**	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
	(in millions)		**(in millions)**	
Short-term investments and cash equivalents	$ 423	$ 423	$ 1,232	$ 1,232
Fixed maturities:				
Corporate securities	8,951	8,270	8,814	7,971
Commercial mortgage-backed securities	2,281	2,077	2,335	2,092
Residential mortgage-backed securities	1,452	1,445	708	684
Asset-backed securities	841	548	915	635
Foreign government bonds	432	435	416	420
U.S. government authorities and agencies and obligations of U.S. states	151	152	147	143

Total fixed maturities	14,108	12,927	13,335	11,945
Equity securities	963	623	1,074	698
Total trading account assets supporting insurance liabilities	$ 15,494	$ 13,973	$ 15,641	$ 13,875

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The net change in unrealized gains (losses) from trading account assets supporting insurance liabilities still held at period end, recorded within Asset management fees and other income was $245 million and $(256) million during the three months ended March 31, 2009 and 2008 respectively.

Other Trading Account Assets

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

	March 31, 2009		December 31, 2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)		(in millions)	
Short-term investments and cash equivalents	$ 6	$ 6	$ 7	$ 7
Fixed maturities:				
Asset-backed securities	1,283	1,148	423	308
Residential mortgage-backed securities	257	121	278	150
Corporate securities	225	202	230	204
Commercial mortgage-backed securities	208	117	217	136
U.S. government authorities and agencies and obligations of U.S. states	72	76	102	106
Foreign government bonds	29	30	32	33
Total fixed maturities	2,074	1,694	1,282	937
Derivative instruments and other	2,422	2,730	2,949	3,250
Equity securities	151	148	144	142
Total other trading account assets	$ 4,653	$ 4,578	$ 4,382	$ 4,336

The net change in unrealized gains (losses) from other trading account assets still held at period end, recorded within Asset management fees and other income was $(29) million and $(132) million during the three months ended March 31, 2009 and 2008 respectively.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Net Investment Income

Net investment income for the three months ended March 31, 2009 and 2008 was from the following sources:

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
	(in millions)	
Fixed maturities, available for sale	$ 2,100	$ 2,115
Fixed maturities, held to maturity	31	23
Equity securities, available for sale	77	72
Trading account assets	197	204
Commercial mortgage and other loans	483	471
Policy loans	137	133
Broker-dealer related receivables	6	44
Short-term investments and cash equivalents	63	162
Other long-term investments	(106)	79
Gross investment income	2,988	3,303
Less investment expenses	(133)	(276)
Net investment income	$ 2,855	$ 3,027

Realized Investment Gains (Losses), Net

Realized investment gains (losses), net, for the three months ended March 31, 2009 and 2008 were from the following sources:

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
	(in millions)	
Other-than-temporary impairment losses on fixed maturities	$ (1,855)	$ (539)
Portion of loss recognized in other comprehensive income (before taxes)	1,250	
Net other-than-temporary impairment losses on fixed maturities recognized in earnings	(605)	(539)
Fixed maturities all other	246	113
Fixed maturities, net	(359)	(426)

Equity securities	(501)	(149)
Commercial mortgage and other loans	(120)	(29)
Investment real estate	(14)	
Joint ventures and limited partnerships	(14)	
Derivatives	1,150	(317)
Other	3	9
Realized investment gains (losses), net	$ 145	$ (912)

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Net Unrealized Investment Gains (Losses)

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

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

	Net Unrealized Gains (Losses) On Investments	Deferred Policy Acquisition Costs and Valuation of Business Acquired	Future Policy Benefits	Policyholders Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
				(in millions)		
Balance, December 31, 2008	$	$	$	$	$	$
Cumulative impact of the adoption of FSP FAS 115-2 and FAS 124-2	(1,139)	9	1		388	(741)
Net investment gains (losses) on investments arising during the period	(121)				56	(65)
Reclassification adjustment for OTTI losses included in net income	155				(45)	110
Reclassification adjustment for OTTI losses excluded from net income(1)	(853)				311	(542)
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and valuation of business acquired		90			(32)	58
Impact of net unrealized investment (gains) losses on future policy benefits			(5)		2	(3)
Impact of net unrealized investment (gains) losses on policyholders dividends						
Balance, March 31, 2009	$ (1,958)	$ 99	$ (4)	$	$ 680	$ (1,183)

(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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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 and Valuation of Business Acquired	Future Policy Benefits	Policyholders Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
			(in millions)			
Balance, December 31, 2008	$ (11,893)	$ 1,479	$ (384)	$ 431	$ 3,632	$ (6,735)
Cumulative impact of the adoption of FSP FAS 115-2 and FAS 124-2	(361)	15	4	418	(21)	55
Net investment gains (losses) on investments arising during the period	(1,169)				416	(753)
Reclassification adjustment for (gains) losses included in net income	708				(248)	460
Reclassification adjustment for OTTI losses excluded from net income(2)	853				(311)	542
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs and valuation of business acquired		240			(84)	156
Impact of net unrealized investment (gains) losses on future policy benefits			178		(62)	116
Impact of net unrealized investment (gains) losses on policyholders dividends				(552)	194	(358)
Balance, March 31, 2009	$ (11,862)	$ 1,734	$ (202)	$ 297	$ 3,516	$ (6,517)

(1) Includes cash flow hedges. See Note 13 for information on cash flow hedges.
(2) Represents transfers out related to the portion of OTTI losses recognized during the period that were not recognized in earnings for securities with no prior OTTI loss.

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

	March 31, 2009	December 31, 2008
	(in millions)	
Fixed maturity securities on which an OTTI loss has been recognized	$ (1,958)	$
Fixed maturity securities, available for sale all other	(10,508)	(10,635)
Equity securities, available for sale	(1,200)	(1,223)

Derivatives designated as cash flow hedges(1)	(187)	(227)
Other investments(2)	33	192
Net unrealized gains (losses) on investments	$ (13,820)	$ (11,893)

(1) See Note 13 for more information on cash flow hedges.
(2) Includes $233 million of net unrealized losses on held to maturity securities that were transferred from available-for-sale.

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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:

	March 31, 2009					
	Less than twelve months(2)		Twelve months or more(2)		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in millions)					
Fixed maturities(1)						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 707	$ 38	$ 36	$ 2	$ 743	$ 40
Obligations of U.S. states and their political subdivisions	94	3	3		97	3
Foreign government bonds	3,816	84	231	40	4,047	124
Corporate securities	28,430	3,440	24,739	5,934	53,169	9,374
Commercial mortgage-backed securities	6,021	1,223	3,326	763	9,347	1,986
Asset-backed securities	2,353	1,571	6,028	3,856	8,381	5,427
Residential mortgage-backed securities	1,337	41	1,305	168	2,642	209
Total	$ 42,758	$ 6,400	$ 35,668	$ 10,763	$ 78,426	$ 17,163

(1) Includes $1,844 million of fair value and $140 million of gross unrealized losses at March 31, 2009 on securities classified as held to maturity, which are not reflected in accumulated other comprehensive income.
(2) The month count for aging of unrealized losses was reset back to historical unrealized loss month counts for securities impacted by the adoption of FSP FAS 115-2 and FAS 124-2.

	December 31, 2008					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in millions)					
Fixed maturities(1)						
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 994	$ 13	$	$	$ 994	$ 13
Obligations of U.S. states and their political subdivisions	299	11	7	1	306	12
Foreign government bonds	3,580	72	294	40	3,874	112
Corporate securities	36,549	4,508	17,707	5,224	54,256	9,732
Commercial mortgage-backed securities	6,537	1,380	3,407	954	9,944	2,334
Asset-backed securities	4,925	1,791	5,910	2,384	10,835	4,175
Residential mortgage-backed securities	824	109	1,557	128	2,381	237
Total	$ 53,708	$ 7,884	$ 28,882	$ 8,731	$ 82,590	$ 16,615

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The gross unrealized losses at March 31, 2009 and December 31, 2008 are composed of $12,331 million and $12,863 million related to investment grade securities and $4,832 million and $3,752 million related to below investment grade securities, respectively. At March 31, 2009, $11,997 million of the gross unrealized losses represented declines in value of greater than 20%, $3,779 million of which had been in that position for less than six months, as compared to $11,505 million at December 31, 2008 that represented declines in value of greater than 20%, $10,509 million of which had been in that position for less than six months. At March 31, 2009, the $10,763 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, 2008, the $8,731 million of gross unrealized losses of twelve months or more were concentrated in asset backed securities, and in the manufacturing and utilities sectors of the Company s corporate securities. In accordance with its policy described in Note 2, the Company concluded that an adjustment to earnings for other-than-temporary impairments for these securities was not warranted at March 31, 2009 or December 31, 2008. These conclusions are based on a detailed analysis of the underlying credit and cashflows on each security. The gross unrealized losses are primarily attributable to credit spread widening and increased liquidity discounts. At March 31, 2009, the Company does not intend to sell the security and it is not more likely than not that the Company will be required to sell the security before the anticipated recovery of its remaining amortized cost basis.

Duration of Gross Unrealized Loss Positions for Equity Securities

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

	March 31, 2009					
	Less than twelve months		Twelve months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in millions)					
Equity securities, available for sale	$ 2,809	$ 1,312	$ 406	$ 123	$ 3,215	$ 1,435

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

At March 31, 2009, $1,270 million of the gross unrealized losses represented declines of greater than 20%, $635 million of which had been in that position for less than six months. At December 31, 2008, $1,227 million of the gross unrealized losses represented declines of greater than 20%, $1,086 million of which had been in that position for less than six months. Securities with fair value of $406 million and $263 million and gross unrealized losses of $123 million and $63 million that have been in a continuous unrealized loss position for twelve months or more as of March 31, 2009 and December 31, 2008, respectively, represent perpetual preferred securities, which have characteristics of both debt and equity securities and to which an impairment model similar to the Company s fixed maturities is applied. In accordance with its policy described in Note 2, the Company concluded that an adjustment for other-than-temporary impairments for these securities was not warranted at March 31, 2009 or December 31, 2008.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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), in accordance with FIN No. 46(R), Consolidation of Variable Interest Entities. A VIE is an entity that either (1) has equity investors that lack certain essential characteristics of a controlling financial interest (including the ability to control the entity, the obligation to absorb the entity s expected losses and the right to receive the entity s expected residual returns) or (2) lacks sufficient equity to finance its own activities without financial support provided by other entities, which in turn would be expected to absorb at least some of the expected losses of the VIE. If the Company determines that it stands to absorb a majority of the VIE s expected losses or to receive a majority of the VIE s expected residual returns, the Company would be deemed to be the VIE s primary beneficiary and would be required to consolidate the VIE.

Consolidated Variable Interest Entities for which the Company is the Sponsor

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

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

	March 31, 2009	December 31, 2008
	(in millions)	
Fixed maturities, available for sale	$ 25	$ 29
Commercial mortgages and other loans	443	450
Other long-term investments	25	100
Cash and cash equivalents	2	1
Accrued investment income	3	2

Other assets	4	5
Separate account assets	88	91
Total assets of consolidated VIEs	$ 590	$ 678
Total liabilities of consolidated VIEs	$ 501	$ 515

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PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Unconsolidated Variable Interest Entities for which the Company is the Sponsor

The Company has also determined that it is not the primary beneficiary of certain VIEs that it sponsors, including certain CDOs and other investment structures, as it will not absorb a majority of the expected losses or receive the majority of the expected residual returns. The Company s maximum exposure to loss resulting from its relationship with unconsolidated VIEs it sponsors is limited to its investment in the VIEs, which was $608 million and $674 million at March 31, 2009 and December 31, 2008, respectively. These investments are reflected in Fixed maturities, available for sale and Other long-term investments. The fair value of assets held within these unconsolidated VIEs was $6,022 million and $5,916 million as of March 31, 2009 and December 31, 2008, respectively. There are no liabilities associated with these unconsolidated VIEs on the Company s balance sheet.

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

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

	March 31, 2009	December 31, 2008
	(in millions)	
Fixed maturities, available for sale	$ 108	$ 124
Fixed maturities, held to maturity	929	1,012
Other trading account assets		404
Other long-term investments	40	43
Cash and cash equivalents	4	79
Accrued investment income	4	8
Other assets		55
Total assets of consolidated VIEs	$ 1,085	$ 1,725
Total liabilities of consolidated VIEs	$ 3	$ 61

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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 $6,511 million and $7,130 million at March 31, 2009 and December 31, 2008, respectively, is classified on the Consolidated Statements of Financial Position within Policyholders account balances. Creditors of the trust do have recourse to the Company if the trust fails to make contractual payments on the medium-term notes. The Company has not provided material financial or other support that was not contractually required to the trust.

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

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

Included among these structured investments are asset-backed securities issued by VIEs that manage investments in the European market. In addition to a stated coupon, each investment provides a return based on the VIE s portfolio of assets and related investment activity. The market value of these VIEs was approximately $7 billion and $8 billion as of March 31, 2009 and December 31, 2008, 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 $906 million and $1,095 million at March 31, 2009 and December 31, 2008, respectively, which includes the fair value of the embedded derivatives.

5. CLOSED BLOCK

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

The excess of Closed Block Liabilities over Closed Block Assets at the date of the demutualization (adjusted to eliminate the impact of related amounts in Accumulated other comprehensive income (loss)) represented the estimated maximum future earnings at that date from the Closed Block expected to result from operations attributed to the Closed Block after income taxes. In establishing the Closed Block, the Company developed an actuarial calculation of the timing of such maximum future earnings. If actual cumulative earnings of the Closed Block from inception through the end of any given period are greater than the expected cumulative earnings, only the expected earnings will be recognized in income. Any excess of actual cumulative earnings over expected cumulative earnings will represent undistributed accumulated earnings attributable to policyholders, which are recorded as a policyholder dividend obligation. The policyholder dividend obligation represents amounts to be paid to Closed Block policyholders as an additional policyholder dividend unless otherwise offset by future Closed Block performance that is less favorable than originally expected. If the actual cumulative earnings of the Closed Block from its inception through the end of any given period are less than the expected cumulative earnings of the Closed Block, the Company will recognize only the actual earnings in income. However, the Company may reduce policyholder dividend scales in the future, which would be intended to increase future actual earnings until the actual cumulative earnings equaled the expected cumulative earnings. As of January 1, 2009, the Company recognized an adjusted policyholder dividend obligation of $851 million, to Closed Block policyholders for the excess of actual cumulative earnings over the expected cumulative earnings, which reflects a cumulative adjustment of $418 million related to the Company s adoption of FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments effective January 1, 2009. See Note 2 for more information on the adoption of FSP FAS 115-2 and FAS 124-2. As of March 31, 2009, the excess of actual cumulative earnings over the expected cumulative earnings was $299 million. However, due to the accumulation of net unrealized investment losses that have arisen subsequent to the establishment of the Closed Block, the policyholder dividend obligation balance as of March 31, 2009 and December 31, 2008 was reduced to zero through Accumulated other comprehensive income (loss). See the table below for changes in the components of the policyholder dividend obligation for the three months ended March 31, 2009.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	March 31, 2009	December 31, 2008
	(in millions)	
Closed Block Liabilities		
Future policy benefits	$ 51,700	$ 51,763
Policyholders dividends payable	1,088	1,036
Policyholder dividend obligation		
Policyholders account balances	5,605	5,622
Other Closed Block liabilities	5,792	5,724
Total Closed Block Liabilities	64,185	64,145
Closed Block Assets		
Fixed maturities, available for sale, at fair value	34,932	35,345
Other trading account assets, at fair value	132	120
Equity securities, available for sale, at fair value	2,086	2,354
Commercial mortgage and other loans	8,046	8,129
Policy loans	5,451	5,423
Other long-term investments	1,824	1,676
Short-term investments	1,130	1,340
Total investments	53,601	54,387
Cash and cash equivalents	1,439	1,779
Accrued investment income	670	615
Other Closed Block assets	347	409
Total Closed Block Assets	56,057	57,190
Excess of reported Closed Block Liabilities over Closed Block Assets	8,128	6,955
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains (losses)	(5,408)	(4,371)
Allocated to policyholder dividend obligation	299	433
Future earnings to be recognized from Closed Block Assets and Closed Block Liabilities	$ 3,019	$ 3,017

Information regarding the policyholder dividend obligation is as follows:

	Three Months Ended March 31, 2009 (in millions)
Balance, January 1, 2009	$

Impact from earnings allocable to policyholder dividend obligation		(552)
Change in net unrealized investment gains (losses) allocated to policyholder dividend obligation		552
Balance, March 31, 2009	$	

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Closed Block revenues and benefits and expenses for the three months ended March 31, 2009 and 2008 were as follows:

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
	(in millions)	
Revenues		
Premiums	$ 773	$ 856
Net investment income	718	841
Realized investment gains (losses), net	(408)	(95)
Other income	15	19
Total Closed Block revenues	1,098	1,621
Benefits and Expenses		
Policyholders benefits	912	972
Interest credited to policyholders account balances	35	35
Dividends to policyholders	3	502
General and administrative expenses	145	172
Total Closed Block benefits and expenses	1,095	1,681
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes and discontinued operations	3	(60)
Income tax expense (benefit)	5	(52)
Closed Block revenues, net of Closed Block benefits and expenses and income taxes, before discontinued operations	(2)	(8)
Income from discontinued operations, net of taxes		
Closed Block revenues, net of Closed Block benefits and expenses, income taxes and discontinued operations	$ (2)	$ (8)

6. 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 Issued	Common Stock Held In Treasury	Common Stock Outstanding	Class B Stock Issued and Outstanding

			(in millions)	
Balance, December 31, 2008	604.9	183.6	421.3	2.0
Common Stock issued				
Common Stock acquired				
Stock-based compensation programs(1)		(1.5)	1.5	
Balance, March 31, 2009	604.9	182.1	422.8	2.0

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Comprehensive Income

The components of comprehensive income are as follows:

	Three Months Ended March 31, 2009	2008
	(in millions)	
Net income	$ 3	$ 84
Other comprehensive income (loss), net of taxes:		
Change in foreign currency translation adjustments	(328)	251
Change in net unrealized investments gains (losses)(1)	(267)	(1,238)
Change in pension and postretirement unrecognized net periodic benefit	9	(1)
Other comprehensive loss(2)	(586)	(988)
Comprehensive loss	(583)	(904)
Comprehensive (income) loss attributable to noncontrolling interests	51	(22)
Comprehensive loss attributable to Prudential Financial, Inc.	$ (532)	$ (926)

(1) Includes cash flow hedges of $25 million and $(76) million for the three months ended March 31, 2009 and 2008, respectively.
(2) Amounts are net of tax benefit of $227 million and $531 million for the three months ended March 31, 2009 and 2008, respectively.

The balance of and changes in each component of Accumulated other comprehensive loss attributable to Prudential Financial, Inc. for the three months ended March 31, 2009 are as follows (net of taxes):

	Accumulated Other Comprehensive Loss Attributable to Prudential Financial, Inc.			
	Foreign Currency Translation Adjustments	Net Unrealized Investment Gains (Losses)(1)	Pension and Postretirement Unrecognized Net Periodic Benefit (Cost)	Total Accumulated Other Comprehensive Loss
	(in millions)			
Balance, December 31, 2008	$ 375	$ (6,735)	$ (983)	$ (7,343)
Change in component during period	(276)	(279)	9	(546)
Impact of adoption of FSP FAS 115-2 and FAS 124-2(2)		(686)		(686)
Balance, March 31, 2009	$ 99	$ (7,700)	$ (974)	$ (8,575)

(1) Includes cash flow hedges of $(122) million and $(147) million as of March 31, 2009 and December 31, 2008, respectively.
(2) See Note 2 for additional information on the adoption of FSP FAS 115-2 and FAS 124-2.

7. 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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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.

Common Stock

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

	Three Months Ended March 31,					
	2009			2008		
	Income	Weighted Average Shares	Per Share Amount	Income	Weighted Average Shares	Per Share Amount
	(in millions, except per share amounts)					
Basic earnings per share						
Income (loss) from continuing operations attributable to the Financial Services Businesses	$ (17)			$ 91		
Direct equity adjustment	11			12		
Less: Income (loss) attributable to noncontrolling interests	(11)			24		
Less: Earnings allocated to participating unvested share-based payment awards						
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 5	422.1	$ 0.01	$ 79	442.1	$ 0.18
Add: Earnings allocated to participating unvested share-based payment awards Basic	$			$		
Less: Earnings allocated to participating unvested share-based payment awards Diluted						
Effect of dilutive securities and compensation programs						
Stock options		0.1			3.9	
Deferred and long-term compensation programs		1.0			0.9	
Diluted earnings per share						
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 5	423.2	$ 0.01	$ 79	446.9	$ 0.18

Unvested share-based payment awards that contain nonforfeitable rights to dividends are participating securities and included in the computation of earnings per share pursuant to the two-class method. Under this method, earnings of the Financial Services Businesses attributable to Prudential Financial, Inc. are allocated between Common Stock and the participating awards, as if the awards were a second class of stock. Earnings allocated to participating unvested share-based payment awards for the three months ended March 31, 2009 and 2008 was based on 4.1 million and 2.8 million of such awards, respectively, weighted for the period they were

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 March 31, 2009 and 2008, 19.1 million and 4.1 million options, respectively, weighted for the portion of the period they were outstanding, with a weighted average exercise price of $54.66 and $83.44 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.

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 March 31, 2009, $4 million of senior notes related to the $2.0 billion December 2006 issuance remain outstanding. These will be dilutive to earnings per share if the average market price of the Common Stock for a particular period is above the initial conversion price of $104.21. As of March 31, 2009, $1.894 billion of senior notes related to the $3.0 billion December 2007 issuance remain outstanding. These senior notes will be dilutive to earnings per share if the average market price of the Common Stock for a particular period is above the initial conversion price of $132.39. See Note 8 for additional information regarding the convertible senior notes.

Class B Stock

Income (loss) from continuing operations per share of Class B Stock was $4.00 and $(10.00) for the three months ended March 31, 2009 and 2008, respectively.

The income (loss) from continuing operations attributable to the Closed Block Business available to holders of Class B Stock after direct equity adjustment for the three months ended March 31, 2009 and 2008 amounted to $8 million and $(20) million, respectively. The direct equity adjustment resulted in a decrease in the income (loss) from continuing operations attributable to the Closed Block Business applicable to holders of Class B Stock for earnings per share purposes of $11 million and $12 million for the three months ended March 31, 2009 and 2008, respectively. For the three months ended March 31, 2009 and 2008, the weighted average number of shares of Class B Stock used in the calculation of earnings per share amounted to 2.0 million. There are no potentially dilutive shares associated with the Class B Stock.

8. SHORT-TERM AND LONG-TERM DEBT

Commercial Paper

Prudential Financial has a commercial paper program rated A-1 by Standard & Poor s Rating Services (S&P), P-2 by Moody s Investor Service, Inc. (Moody s) and F2 by Fitch Ratings Ltd. (Fitch) as of March 31, 2009. Prudential Financial s outstanding commercial paper borrowings were $734 million and $1,243 million as of March 31, 2009 and December 31, 2008, respectively.

Prudential Funding, LLC, a wholly owned subsidiary of Prudential Insurance, has a commercial paper program, rated A-1+ by S&P, P-1 by Moody s and F1 by Fitch as of March 31, 2009. Prudential Funding s outstanding commercial paper and master note borrowings were $2,573 million and $4,354 million as of March 31, 2009 and December 31, 2008, respectively.

As of March 31, 2009 and December 31, 2008, the weighted average maturity of the total commercial paper outstanding was 24 and 29 days, respectively.

The outstanding commercial paper as of March 31, 2009 includes $374 million and $750 million under the Commercial Paper Funding Facility (CPFF) sponsored by the Federal Reserve Bank of New York related to

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Prudential Financial s and Prudential Funding s commercial paper programs, respectively. On February 19, 2009, the commercial paper credit rating of Prudential Financial was downgraded by Fitch from F1 to F2. Consequently, as of that date, Prudential Financial was no longer eligible to issue commercial paper under the CPFF. As of April 30, 2009, there are no CPFF borrowings outstanding under either of the Company s commercial paper programs.

Convertible Senior Notes

On December 12, 2007, Prudential Financial issued in a private placement $3.0 billion of floating rate convertible senior notes that are convertible by the holders at any time after issuance into cash and shares of Prudential Financial s Common Stock. The conversion price, $132.39 per share, is subject to adjustment upon certain corporate events. The conversion feature requires net settlement in shares; therefore, upon conversion, a holder would receive cash up to the par amount of the convertible notes surrendered for conversion and shares of Prudential Financial Common Stock only for the portion of the settlement amount in excess of the par amount, if any. These notes are redeemable by Prudential Financial, at par plus accrued interest, on or after June 16, 2009. Holders of the notes may also require Prudential Financial to repurchase the notes, at par plus accrued interest, on contractually specified dates, of which the first such date is June 15, 2009. During the first quarter of 2009, the Company repurchased, in individually negotiated transactions, $245 million of these notes which were offered to the Company by certain holders. These notes were repurchased at a discount resulting in a pre-tax gain of $7 million that is recorded within Asset management fees and other income. As of March 31, 2009, $1,894 million of these notes remain outstanding. In addition, as of March 31, 2009, $4 million of floating rate convertible senior notes that were issued by Prudential Financial in a private placement in December 2006 remain outstanding. The next date on which holders of these notes may require Prudential Financial to repurchase these notes is December 12, 2009.

Federal Home Loan Bank of New York

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

Prudential Insurance s membership in FHLBNY requires the ownership of member stock, and borrowings from FHLBNY require the purchase of FHLBNY activity based stock in an amount equal to 4.5% of the outstanding borrowings. All FHLBNY stock purchased by Prudential Insurance is classified as restricted general account investments within Other long-term investments, and the carrying value of these investments was $267 million as of March 31, 2009. Under guidance of the New Jersey Department of Banking and Insurance, the total amount of qualifying mortgage-related assets and U.S. Treasury securities that can be pledged as collateral by Prudential Insurance to FHLBNY is limited to 5% of the net admitted assets of Prudential Insurance on a statutory basis, exclusive of separate account assets, as of the prior year end, which equates to $7.5 billion based on net admitted assets as of December 31, 2008. Based upon the existing guidance and on the fair value of qualifying assets owned by Prudential Insurance within the Financial Services Businesses as of March 31, 2009 (including assets on loan and assets pledged to the FHLBNY at that date and taking into account applicable required collateralization levels and required purchases of activity based FHLBNY stock), the estimated total borrowing capacity with the FHLBNY was approximately $6.5 billion as of March 31, 2009. The fair value of the qualifying assets pledged as collateral by Prudential Insurance must be maintained at certain specified levels

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

of the borrowed amount, which can vary, depending on the nature of the assets pledged. As of March 31, 2009, Prudential Insurance had pledged qualifying assets with a fair value of $5,408 million, which is above the minimum level required by the FHLBNY, and had total outstanding borrowings of $4.5 billion. The total borrowings from the FHLBNY as of March 31, 2009, is comprised of collateralized advances, of which $1 billion is reflected in Short-term debt and $2 billion is reflected in Long-term debt, as well as $1.5 billion of collateralized funding agreements that are reflected in Policyholders account balances. Subsequent to March 31, 2009, $1.0 billion of collateralized advances were repaid upon maturity.

Due to the rating downgrades experienced by Prudential Insurance during the first quarter of 2009, Prudential Insurance is currently only able to initiate new borrowings from the FHLBNY for a term of 90 days or less which can be refinanced on similar terms.

TALF Borrowings

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

As of March 31, 2009, the Company has $786 million of asset-backed securities purchased under TALF that are reflected within Other trading account assets, and has $736 million of secured financing from the Federal Reserve related to the purchase of these securities that is reflected within Long-term debt. The Company is carrying the securities at fair value as SFAS No. 115 trading assets and the loan at fair value under the fair value option afforded by SFAS No. 159.

9. EMPLOYEE BENEFIT PLANS

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

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

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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 March 31,			
	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
	(in millions)			
Components of net periodic (benefit) cost				
Service cost	$ 41	$ 39	$ 3	$ 3
Interest cost	115	117	29	31
Expected return on plan assets	(182)	(180)	(27)	(40)
Amortization of prior service cost	7	11	(3)	(3)
Amortization of actuarial (gain) loss, net	8	4	11	
Special termination benefits		2		
Net periodic (benefit) cost	$ (11)	$ (7)	$ 13	$ (9)

10. SEGMENT INFORMATION

Segments

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

Adjusted Operating Income

In managing the Financial Services Businesses, the Company analyzes the operating performance of each segment using adjusted operating income. Adjusted operating income does not equate to income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures or net income as determined in accordance with U.S. GAAP but is the measure of segment profit or loss used by the Company to evaluate segment performance and allocate resources, and consistent with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, is the measure of segment performance presented below.

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

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

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

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Adjusted operating income of the International Insurance segment and International Investments segment, excluding the global commodities group, reflect the impact of an intercompany arrangement with Corporate and Other operations pursuant to which the segments non-U.S. dollar denominated earnings in all countries for a particular year, including its interim reporting periods, are translated at fixed currency exchange rates. The fixed rates are determined in connection with a currency hedging program designed to mitigate the risk that unfavorable rate changes will reduce the segments U.S. dollar equivalent earnings. Pursuant to this program, the Company s Corporate and Other operations execute forward currency contracts with third parties to sell the 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 (a net gain of $5 million and $1 million for the three months ended March 31, 2009 and 2008, respectively). As of March 31, 2009 and December 31, 2008, the fair value of open contracts used for this purpose was a net asset of $110 million and a net asset of $85 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 to reflect the after-hedge yield of the underlying instruments. Adjusted operating income includes net gains of $26 million and $12 million for the three months ended March 31, 2009 and 2008, respectively, due to periodic settlements and yield adjustments of such contracts.

Certain products the Company sells are accounted for as freestanding derivatives or contain embedded derivatives. Changes in the fair value of these derivatives, along with any fees received or payments made relating to the derivative, are recorded in Realized investment gains (losses), net. These Realized investment gains (losses), net are included in adjusted operating income in the period in which the gain or loss is recorded. In addition, the changes in fair value of any associated derivative portfolio that is part of an economic hedging program related to the risk of these products (but which do not qualify for hedge accounting treatment under U.S. GAAP) are also included in adjusted operating income in the period in which the gains or losses on the derivative portfolio are recorded. Adjusted operating income includes net gains of $1,345 million and net losses of $43 million for the three months ended March 31, 2009 and 2008, respectively, related to these products and any associated derivative portfolio. Offsetting the net gain of $1,345 million in the first quarter of 2009, is $1,067 million of amortization from deferred policy acquisition and other costs, which are also included in adjusted operating income.

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, including 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, including 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 $48 million and $39 million for the three months ended March 31, 2009 and 2008, respectively, related to these and other businesses were included in adjusted operating income as an adjustment to Realized investment gains (losses), net.

The Company has certain investments in its general account portfolios that are classified as trading. These trading investments are carried at fair value and included in Other trading account assets, at fair value on the Company s statements of financial position. Realized and unrealized gains and losses for these investments are recorded in Asset management fees and other income, and interest and dividend income for these investments is recorded in Net investment income. Consistent with the exclusion of realized investment gains and losses with respect to other investments managed on a consistent basis, the net gains or losses on these investments, which is recorded within Asset management fees and other income, is excluded from adjusted operating income and is reflected as an adjustment to Realized investment gains (losses), net. In addition, the secured financing received from the Federal Reserve under TALF that is reflected within Long-term debt, is carried at fair value under the fair value option afforded by SFAS No. 159. The changes in the fair value of this debt, which is recorded within Asset management fees and other income, is also excluded from adjusted operating income and are reflected as an adjustment to Realized investment gains (losses), net. This is consistent with the securities purchased with the proceeds from this financing, which are carried at fair value and included in Other trading account assets, at fair value as discussed above. The net impact of these adjustments was net losses of $40 million and net gains of $3 million for the three months ended March 31, 2009 and 2008, respectively, of which $40 million of gains for the three months ended March 31, 2009 were related to the change in fair value of the TALF debt.

The Company has certain assets and liabilities for which, under GAAP, the change in value due to changes in foreign currency exchange rates during the period is recorded in Asset management fees and other income. To the extent the foreign currency exposure on these assets and liabilities is economically hedged, the change in value included in Asset management fees and other income is excluded from adjusted operating income and is reflected as an adjustment to Realized investment gains (losses), net. These adjustments were a net gain of $78 million and $65 million for the three months ended March 31, 2009 and 2008, 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.

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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

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

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

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

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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 March 31, 2009	Three Months Ended March 31, 2008
	(in millions)	
Individual Annuities	$ 17	$ 115
Retirement	159	124
Asset Management	(1)	119
Total U.S. Retirement Solutions and Investment Management Division	175	358
Individual Life	40	96
Group Insurance	93	90
Total U.S. Individual Life and Group Insurance Division	133	186
International Insurance	425	413
International Investments	10	26
Total International Insurance and Investments Division	435	439
Corporate Operations	(103)	(28)
Real Estate and Relocation Services	(63)	(23)
Total Corporate and Other	(166)	(51)
Adjusted Operating Income before income taxes for Financial Services Businesses	577	932
Reconciling items:		
Realized investment gains (losses), net, and related adjustments	(710)	(665)
Charges related to realized investment gains (losses), net	44	(13)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	145	(262)
Change in experience-rated contractholder liabilities due to asset value changes	(45)	200
Divested businesses	(32)	(67)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	3	(36)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	(18)	89
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Closed Block Business	30	(26)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 12	$ 63

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.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	Three Months Ended March 31, 2009	2008
	(in millions)	
Financial Services Businesses:		
Individual Annuities	$ 1,892	$ 573
Retirement	1,208	1,267
Asset Management	263	548
Total U.S. Retirement Solutions and Investment Management Division	3,363	2,388
Individual Life	680	680
Group Insurance	1,333	1,257
Total U.S. Individual Life and Group Insurance Division	2,013	1,937
International Insurance	2,537	2,325
International Investments	105	176
Total International Insurance and Investments Division	2,642	2,501
Corporate Operations	(9)	52
Real Estate and Relocation Services	(1)	46
Total Corporate and Other	(10)	98
Total	8,008	6,924
Reconciling items:		
Realized investment gains (losses), net, and related adjustments	(710)	(665)
Charges related to realized investment gains (losses), net	(8)	1
Investment gains (losses) on trading account assets supporting insurance liabilities, net	145	(262)
Divested businesses	(26)	(45)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests	14	(60)
Total Financial Services Businesses	7,423	5,893
Closed Block Business	1,140	1,671
Total per Unaudited Interim Consolidated Financial Statements	$ 8,563	$ 7,564

The Asset Management segment revenues include intersegment revenues of $85 million and $93 million for the three months ended March 31, 2009 and 2008, respectively, primarily consisting of asset-based management and administration fees. Management has determined the intersegment revenues with reference to market rates. Intersegment revenues are eliminated in consolidation in Corporate and Other.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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

	March 31, 2009	December 31, 2008
	(in millions)	
Individual Annuities	$ 62,457	$ 65,516
Retirement	109,707	113,622
Asset Management	32,075	36,504
Total U.S. Retirement Solutions and Investment Management Division	204,239	215,642
Individual Life	31,062	31,781
Group Insurance	32,642	31,657
Total U.S. Individual Life and Group Insurance Division	63,704	63,438
International Insurance	73,776	76,362
International Investments	5,778	8,716
Total International Insurance and Investments Division	79,554	85,078
Corporate Operations	14,485	14,465
Real Estate and Relocation Services	829	1,003
Total Corporate and Other	15,314	15,468
Total Financial Services Businesses	362,811	379,626
Closed Block Business	64,718	65,385
Total per Unaudited Interim Consolidated Financial Statements	$ 427,529	$ 445,011

11. 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. SFAS No. 157 establishes 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. 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 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

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

maturities (corporate public and private bonds, most government securities, certain asset-backed and mortgage-backed securities, etc.), certain equity securities 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 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 use the price from the pricing service highest in the vendor hierarchy based on the respective asset type. In order 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.

The use of valuation methodologies using observable inputs for private fixed maturities are primarily determined using a discounted cash flow model, which utilizes a discount rate based upon the average of spread surveys collected from private market intermediaries who are active in both primary and secondary transactions, and takes into account, among other factors, the credit quality and industry sector of the issuer and the reduced liquidity associated with private placements. 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). Any restrictions on the ability to redeem interests in these funds at NAV are considered to have a de minimis effect on the fair value.

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.

The fair value of commercial loans held for investment and accounted for using the Fair Value Option, as discussed in Note 2, is 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 interest rate and market spread assumptions for similar quality loans are generally observable based upon market transactions.

The majority of the Company s derivative positions is traded in the over-the-counter (OTC) derivative market and is 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, non-binding broker-dealer quotations, third-party pricing vendors and/or recent trading activity. The fair values of most OTC derivatives, including forward rate agreements, interest rate and cross currency swaps, commodity swaps, commodity forward contracts, single name credit default swaps and to-be-announced 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, yield curves, equity prices, index dividend yields, non-performance risk and volatility. 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

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Company s derivative agreements are with highly rated major international financial institutions. Consistent with the practice of major international financial institutions, the Company uses the credit spread embedded in the London Interbank Offered Rate (LIBOR) interest rate curve to reflect non-performance risk when determining the fair value of derivative assets and liabilities. The Company believes this credit spread is an appropriate estimate of the non-performance risk for derivative related assets and liabilities between highly rated institutions after consideration of the impacts of the collateral posting process. 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.

Other long-term investments carried at fair value 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 as described above, and are reflected in Level 2.

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 assumptions 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. In circumstances where vendor pricing is not available, internally developed valuations or non-binding broker quotes are used to determine fair value. Non-binding broker quotes are reviewed for reasonableness, based on the Company s understanding of the market. These estimates may use significant unobservable inputs, which reflect the Company s own assumptions about the inputs market participants would use in pricing the asset. Circumstances where observable market data is not available may include events such as market illiquidity and credit events related to the security. Under certain conditions, 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. In such cases, the valuations are generally classified as Level 3. As of March 31, 2009 such over-rides on a net basis resulted in lower pricing levels being used and in aggregate were not materially different from the prices received from the independent pricing services.

For certain private fixed maturities, including those that are distressed, 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. Certain public fixed maturities and private fixed maturities priced internally are based on observable and unobservable inputs. Significant unobservable inputs used include: issue specific credit adjustments, material non-public financial information, management judgment, estimation of future earnings and cashflows, 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.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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.

The fair value of loans held for sale and accounted for using the Fair Value Option discussed in Note 2 is determined utilizing pricing indicators from the whole loan market, which is considered the principal exit market for these loans. The Company has evaluated the valuation inputs used for these assets, including the terms of the loans, prevailing interest rates and credit risk, and deemed that the primary pricing inputs are unobservable.

The fair value of wholly-owned real estate held in consolidated investment funds is determined through an independent appraisal process. The appraisals generally utilize a discounted cash flow model, following an income approach that incorporates various assumptions including rental revenue, operating expenses and discount rates. These appraisals and the related assumptions are updated at least annually, and incorporate historical property experience and any observable market data, including any market transactions.

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 judgement. Under SFAS No. 157 the Company is also required to incorporate the Company s own risk of non-performance in the valuation of the embedded derivatives associated with the Company s optional living benefit features. Since insurance liabilities are senior to debt, the Company believes that reflecting the claims-paying 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. Historically, the expected cash flows were discounted using forward LIBOR interest rates, which were commonly viewed as being consistent with AA quality claims-paying ratings. However, in light of first quarter of 2009 developments, including rating agency downgrades to the claims-paying ratings of the Company s insurance subsidiaries, the Company determined that forward LIBOR interest rates were no longer indicative of the Company s claims-paying ability. Beginning in the first quarter of 2009, the adjustment for the Company s non-performance risk is determined taking into consideration publicly available information relating to the claims-paying ability 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. As a result, in the first quarter of 2009 the Company increased the discount rate used in the valuations of the embedded derivatives associated with the Company s optional living benefit features, reflecting the market perceived increase in the Company s non-performance risk, and thereby reduced the fair value of the embedded derivative liabilities. The increase in the discount rate over forward LIBOR rates generally ranged from 250 to 300 basis points for the portion of the interest rate curve most relevant to these liabilities.

Other significant inputs to the valuation models 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. In the first quarter of 2009 the Company further updated the volatility assumptions for the Individual Annuities segment to reflect the inclusion of new market inputs. The Company no longer solely utilizes the implied volatility of over-the-counter equity options but a blend of these implied volatilities and an index based on historical volatilities.

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

Level 3 includes OTC derivatives where the bid-ask spreads are generally wider than derivatives classified within Level 2 thus requiring more judgment in estimating the mid-market price of such derivatives.

Derivatives that are valued based upon models with unobservable market input values or input values from less actively traded or less-developed markets are classified within Level 3 in the fair value hierarchy. Derivatives classified as Level 3 include first-to-default credit basket swaps, look-back equity options and other structured options. 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 s values.

Long-term debt carried at fair value includes 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. The Company values these liabilities using various inputs including the value of the collateral (eligible asset-backed securities), the value of similar non-TALF eligible collateral and various other market observable and non-observable inputs which incorporate significant management judgement. As a result, the pricing of the collateral assets (other trading account assets) and associated non-recourse liabilities have been classified within Level 3 in the Company s fair value hierarchy. See Note 8 for additional information regarding the Company s participation in TALF.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

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 March 31, 2009				
	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	$	$ 6,395	$	$	$ 6,395
Obligations of U.S. states and their political subdivisions		902			902
Foreign government bonds		33,066	29		33,095
Corporate securities		80,876	1,041		81,917
Asset-backed securities		9,185	1,261		10,446
Commercial mortgage-backed securities		9,585	62		9,647
Residential mortgage-backed securities		11,927	211		12,138
Sub-total		151,936	2,604		154,540
Trading account assets supporting insurance liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies		150			150
Obligations of U.S. states and their political subdivisions		2			2
Foreign government bonds		435			435
Corporate securities		8,134	136		8,270
Asset-backed securities		468	80		548
Commercial mortgage-backed securities		2,072	5		2,077
Residential mortgage-backed securities		1,417	28		1,445
Equity securities	488	133	2		623
All other activity	246	177			423
Sub-total	734	12,988	251		13,973
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies		76			76
Obligations of U.S. states and their political subdivisions					
Foreign government bonds		30			30
Corporate securities	10	153	39		202
Asset-backed securities		337	811		1,148
Commercial mortgage-backed securities		115	2		117
Residential mortgage-backed securities		118	3		121
Equity securities	122	10	16		148
All other activity	10	7,788	1,109	(6,171)	2,736
Sub-total	142	8,627	1,980	(6,171)	4,578
Equity securities, available for sale	3,361	1,863	327		5,551
Commercial loans		478	16		494
Other long-term investments	110	263	389		762
Short term investments	2,211	1,618			3,829
Cash and cash equivalents	2,815	8,766			11,581
Other assets	1,800	816	26		2,642

Sub-total excluding separate account assets	11,173	187,355	5,593	(6,171)	197,950
Separate account assets(1)	60,059	63,434	16,145		139,638
Total assets	$ 71,232	$ 250,789	$ 21,738	$ (6,171)	$ 337,588
Future policy benefits			1,816		1,816
Long-term debt			736		736
Other liabilities	102	5,691	194	(5,271)	716
Total liabilities	$ 102	$ 5,691	$ 2,746	$ (5,271)	$ 3,268

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

(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 as permitted by FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts and FSP FIN 39-1, Amendment of FASB Interpretation No. 39*.

	As of December 31, 2008				
	Level 1	Level 2	Level 3 (in millions)	Netting(2)	Total
Fixed maturities, available for sale	$	$ 155,787	$ 2,269	$	$ 158,056
Trading account assets supporting insurance liabilities	748	12,982	145		13,875
Other trading account assets	143	9,882	1,396	(7,085)	4,336
Equity securities, available for sale	3,801	1,939	325		6,065
Commercial mortgage and other loans		517	56		573
Other long-term investments	246	265	1,015		1,526
Short term investments	2,601	1,874			4,475
Cash and cash equivalents	2,512	8,834			11,346
Other assets	1,255	2,500	26		3,781
Sub-total excluding separate account assets	11,306	194,580	5,232	(7,085)	204,033
Separate account assets(1)	56,362	70,953	19,780		147,095
Total assets	$ 67,668	$ 265,533	$ 25,012	$ (7,085)	$ 351,128
Future policy benefits			3,229		3,229
Long-term debt			324		324
Other liabilities	57	6,692	139	(5,948)	940
Total liabilities	$ 57	$ 6,692	$ 3,692	$ (5,948)	$ 4,493

(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 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 as permitted by FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts and FSP FIN 39-1, Amendment of FASB Interpretation No. 39*.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The following tables provide a summary of the changes in fair value of Level 3 assets and liabilities for the three months ended March 31, 2009, as well as the portion of gains or losses included in income for the three months ended March 31, 2009 attributable to unrealized gains or losses related to those assets and liabilities still held at March 31, 2009.

	Three Months Ended March 31, 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	$ 30	$ 932	$ 1,013	$ 66	$ 228
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net		(45)	(36)		
Asset management fees and other income					
Included in other comprehensive income (loss)	(1)	(70)	(189)	(3)	
Net investment income		5	2		
Purchases, sales, issuances, and settlements		(4)	(53)		(17)
Foreign currency translation			(4)	(1)	
Transfers into (out of) Level 3(2)		223	528		
Fair value, end of period	$ 29	$ 1,041	$ 1,261	$ 62	$ 211
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$	$ (43)	$ (36)	$	$
Asset management fees and other income	$	$	$	$	$
Included in other comprehensive income (loss)	$ (1)	$ (72)	$ (190)	$ (3)	$

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended March 31, 2009				
	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	Trading Account Assets Supporting Insurance Liabilities-Equity Securities
			(in millions)		
Fair value, beginning of period	$ 75	$ 35	$ 6	$ 28	$ 1
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net					
Asset management fees and other income	(8)	(15)	(1)		
Included in other comprehensive income (loss)					
Net investment income	1				
Purchases, sales, issuances, and settlements	(4)	(5)			1
Foreign currency translation					
Transfers into (out of) Level 3(2)	72	65			
Fair value, end of period	$ 136	$ 80	$ 5	$ 28	$ 2
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$	$	$	$	$
Asset management fees and other income	$ (8)	$ (15)	$ (1)	$	$
Included in other comprehensive income (loss)	$	$	$	$	$

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended March 31, 2009				
	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	Other Trading Account Assets -Equity Securities
	(in millions)				
Fair value, beginning of period	$ 38	$ 30	$ 2	$ 3	$ 19
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net					
Asset management fees and other income	1	(38)		(1)	(2)
Included in other comprehensive income (loss)					
Net investment income					
Purchases, sales, issuances, and settlements		821		1	
Foreign currency translation					(1)
Transfers into (out of) Level 3(2)		(2)			
Fair value, end of period	$ 39	$ 811	$ 2	$ 3	$ 16
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$	$	$	$	$
Asset management fees and other income	$ 1	$ (38)	$	$ (1)	$ (2)
Included in other comprehensive income (loss)	$	$	$	$	$

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended March 31, 2009				
	Other Trading Account Assets -All Other Activity	Equity Securities, Available for Sale	Commercial Mortgage Loans (in millions)	Other Long-term Investments	Other Assets
Fair value, beginning of period	$ 1,304	$ 325	$ 56	$ 1,015	$ 26
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net	94	(4)	(3)		
Asset management fees and other income	15			(29)	
Included in other comprehensive income		(3)			
Net investment income					
Purchases, sales, issuances, and settlements	(304)	17	(37)	55	
Foreign currency translation		(7)			
Other(1)				(652)	
Transfers into (out of) Level 3(2)		(1)			
Fair value, end of period	$ 1,109	$ 327	$ 16	$ 389	$ 26
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period(3):					
Included in earnings:					
Realized investment gains (losses), net	$ 94	$ (4)	$ (2)	$	$
Asset management fees and other income	$	$	$	$ (7)	$
Included in other comprehensive income (loss)	$	$ (3)	$	$	$

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Three Months Ended March 31, 2009			
	Separate Account Assets(4)	Future Policy Benefits	Long-Term Debt	Other Liabilities
	(in millions)			
Fair value, beginning of period	$ 19,780	$ (3,229)	$ (324)	$ (139)
Total gains or (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net		1,435		(55)
Asset management fees and other income			40	
Interest credited to policyholders account balances	(3,518)			
Included in other comprehensive income				
Net investment income				
Purchases, sales, issuances, and settlements	42	(22)	(776)	
Foreign currency translation				
Other(1)			324	
Transfers into (out of) Level 3(2)	(159)			
Fair value, end of period	$ 16,145	$ (1,816)	$ (736)	$ (194)
Unrealized gains (losses) for the period relating to those Level 3 assets and liabilities that were still held by the Company at the end of the period(3):				
Included in earnings:				
Realized investment gains (losses), net	$	$ 1,398	$	$ (54)
Asset management fees and other income	$	$	$ 40	$
Interest credited to policyholders account balances	$ (3,679)	$	$	$

(1) Other represents the impact of the deconsolidation of certain real estate funds.
(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.

Other-than-temporary impairments on Level 3 fixed maturity securities transferred to other comprehensive income were $32 million for asset-backed securities and $(11) million for corporate securities.

Transfers Transfers into Level 3 for fixed maturity available for sale corporate securities and asset-backed securities 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. Partially offsetting these transfers into Level 3 were transfers out of Level 3 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 for trading account assets supporting insurance liabilities-corporate securities and asset-backed securities are due to the use of unobservable inputs within the valuation methodologies and broker quotes (that could not be validated), when previously information from third party pricing services (that could be validated) was utilized.

PRUDENTIAL FINANCIAL, INC.

Notes to Unaudited Interim Consolidated Financial Statements (Continued)

The following tables provide a summary of the changes in fair value of Level 3 assets and liabilities for the period January 1, 2008 to March 31, 2008, as well as the portion of gains or losses included in income attributable to unrealized gains or losses related to those assets and liabilities still held at March 31, 2008.

	Fixed Maturities, Available For Sale	Trading Account Assets Supporting Insurance Liabilities	Other Trading Account Assets	Equity Securities, Available for Sale
	(in millions)			
Fair value, beginning of period	$ 2,890	$ 291	$ 497	$ 190
Total gains or (losses) (realized/unrealized):				
Included in earnings:				
Realized investment gains (losses), net	(144)		99	(1)
Asset management fees and other income		1	(5)	
Included in other comprehensive income (loss)	(122)			(12)
Net investment income	3			
Purchases, sales, issuances, and settlements	(58)	(9)	34	(2)
Foreign currency translation			1	1
Transfers into (out of) Level 3	530	(90)		11
Fair value, end of period	$ 3,099	$ 193	$ 626	$ 187
Unrealized gains (losses) for the period relating to those Level 3 assets that were still held by the Company at the end of the period(2):				
Included in earnings:				
Realized investment gains (losses), net	$ (150)	$	$ 99	$ (1)
Asset management fees and other income	$	$ (10)	$ (5)	$
Included in other comprehensive income (loss)	$ (118)	$	$	$ (12)

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Notes to Unaudited Interim Consolidated Financial Statements (Continued)

	Other Long-term Investments	Separate Account Assets(1)	Future Policy Benefits	Long-Term Debt	Other Liabilities
			(in millions)		
Fair value, beginning of period	$ 824	$ 21,815	$ (168)	$ (152)	$ (77)
Total gains or (losses) (realized/unrealized):					
Included in earnings:					
Realized investment gains (losses), net			(265)		(41)
Asset management fees and other income	21			1	
Interest credited to policyholders account balances		169			
Included in other comprehensive income					
Net investment income	2				
Purchases, sales, issuances, and settlements	30	162	(19)	(33)	
Transfers into (out of) Level 3		(38)			
Fair value, end of period	$ 877	$ 22,108	$ (452)	$ (184)	$ (118)
Unrealized gains (losses) for the period relating to those Level 3 assets and liabilities that were still held by the Company at the end of the period(2):					
Included in earnings:					
Realized investment gains (losses), net	$	$	$ (267)	$	$ (41)
Asset management fees and other income	$ (13)	$	$	$ 1	$
Interest credited to policyholders account balances	$	$ 170	$	$	$

(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 liabilities are not included in the above table as they are reported at contract value and not fair value in the Company s consolidated Statement of Financial Position.

(2) 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.