PRUDENTIAL FINANCIAL INC
Form 10-K
February 25, 2011
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(MARK ONE)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

OR

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

COMMISSION FILE NUMBER 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

751 Broad Street

Newark, New Jersey 07102

(973) 802-6000

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

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, Par Value $.01	New York Stock Exchange

(including Shareholder Protection Rights)

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

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

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

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

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

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

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

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

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

As of June 30, 2010, the aggregate market value of the registrant s Common Stock (par value $0.01) held by non-affiliates of the registrant was $24.92 billion and 464 million shares of the Common Stock were outstanding. As of January 31, 2011, 484 million shares of the registrant s Common Stock (par value $0.01) were outstanding. As of June 30, 2010, and January 31, 2011, 2 million shares of the registrant s Class B Stock, for which there is no established public trading market, were outstanding and held by non-affiliates of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

The information required to be furnished pursuant to Part III of this Form 10-K is set forth in, and is hereby incorporated by reference herein from, the Registrant s Definitive Proxy Statement for the Annual Meeting of Shareholders to be held on May 10, 2011, to be filed by the Registrant with the Securities and Exchange Commission pursuant to Regulation 14A not later than 120 days after the year ended December 31, 2010.

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Forward-Looking Statements

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

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

PART I

ITEM 1. BUSINESS

Overview

Prudential Financial, Inc., a financial services leader with approximately $784 billion of assets under management as of December 31, 2010, has operations in the United States, Asia, Europe and Latin America. Through our subsidiaries and affiliates, we offer a wide array of financial products and services, including life insurance, annuities, retirement-related services, mutual funds, investment management, and real estate services. We offer these products and services to individual and institutional customers through proprietary and third party distribution networks. Our principal executive offices are located in Newark, New Jersey.

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

We maintain diversified investment portfolios in our insurance companies to support our liabilities to customers in our Financial Services Businesses and the Closed Block Business, as well as our other general liabilities. Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, equity securities and other invested assets. As of December 31, 2010, the general account investment portfolio totaled $209.9 billion for the Financial Services Businesses and $65.6 billion for the Closed Block Business. For additional information on our investment portfolio see Management s Discussion and Analysis of Financial Condition and Results of Operations General Account Investments and Note 4 to the Consolidated Financial Statements.

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

Demutualization and Separation of the Businesses

Demutualization

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

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

The Plan of Reorganization required us to establish and operate a regulatory mechanism known as the Closed Block. The Closed Block is designed generally to provide for the reasonable expectations of holders of participating individual life insurance policies and annuities included in the Closed Block for future policy dividends after demutualization by allocating assets that will be used for payment of benefits, including policyholder dividends, on these policies. See Note 12 to the Consolidated Financial Statements for more information on the Closed Block. The Plan of Reorganization provided that Prudential Insurance may, with the prior consent of the New Jersey Commissioner of Banking and Insurance, enter into agreements to transfer to a third party all or any part of the risks under the Closed Block policies. The Closed Block is 90% reinsured, including 17% by a wholly owned subsidiary of Prudential Financial.

Separation of the Businesses

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

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

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

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

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

- within Prudential Insurance, the Closed Block Assets, Surplus and Related Assets (see below), deferred policy acquisition costs and other assets in respect of the policies included in the Closed Block and, with respect to liabilities, the Closed Block Liabilities;
- within Prudential Holdings, LLC, the principal amount of the IHC debt, related unamortized debt issuance costs and hedging activities, and a guaranteed investment contract; and
- within Prudential Financial, dividends received from Prudential Holdings, LLC, and reinvestment proceeds thereof, and other liabilities of Prudential Financial, in each case attributable to the Closed Block Business.

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

On the date of demutualization, the majority of the net proceeds from the issuances of the Class B Stock and the IHC debt was allocated to our Financial Services Businesses. Also, on the date of demutualization, Prudential Holdings, LLC distributed $1.218 billion of the net proceeds of the IHC debt to Prudential Financial to use for general corporate purposes in the Financial Services Businesses. Prudential Holdings, LLC deposited $437 million of the net proceeds of the IHC debt in a debt service coverage account maintained in the Financial Services Businesses that, together with reinvested earnings thereon, constitutes a source of payment and security for the IHC debt. The remainder of the net proceeds, $72 million, was used to purchase a guaranteed investment contract to fund a portion of the bond insurance related to the IHC debt. To the extent we use the debt service coverage account to service payments with respect to the IHC debt or to pay dividends to Prudential Financial for

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purposes of the Closed Block Business, a loan from the Financial Services Businesses to the Closed Block Business would be established. Such an inter-business loan would be repaid by the Closed Block Business to the Financial Services Businesses when earnings from the Closed Block Business replenish funds in the debt service coverage account to a specified level. See Note 14 of the Consolidated Financial Statements for additional information on the IHC debt and the debt service coverage account.

We believe that the proceeds from the issuances of the Class B Stock and IHC debt allocated to the Financial Services Businesses reflected capital in excess of that necessary to support the Closed Block Business and that the Closed Block Business as established has sufficient assets and cash flows to service the IHC debt. The Closed Block Business was financially leveraged through the issuance of the IHC debt, and dividends on the Class B Stock are subject to prior servicing of the IHC debt. It is expected that any inter-business loan referred to above will be repaid in full out of the Surplus and Related Assets, but not the Closed Block Assets. Any such loan will be subordinated to the IHC debt.

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

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

Inter-Business Transfers and Allocation Policies

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

Inter-Business Transactions and Transfers

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

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

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

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

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

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

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

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

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

Accounting Policies

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

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

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

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

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

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Tax Allocation and Tax Treatment

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

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

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

Internal Short-Term Cash Management Facilities

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

Financial Services Businesses

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

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

U.S. Retirement Solutions and Investment Management Division

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

Individual Annuities

Our Individual Annuities segment manufactures and distributes individual variable and fixed annuity products, primarily to the U.S. mass affluent market. In general, we consider households with investable assets or annual income in excess of $100,000 to be mass affluent in the U.S. market. Our focus on innovative product design coupled with our risk management strategies, as discussed below, has contributed to growth in our business in recent years and a reduced risk profile. Our annuity products are distributed through a diverse group of independent financial planners, wirehouses, banks, and insurance agents, including Prudential Agents and the agency distribution force of The Allstate Corporation, or Allstate. In the second half of 2006, we began distributing our annuity products through Allstate s agency distribution force, as discussed below.

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

Competition

The Individual Annuities segment competes with other providers of retirement savings and accumulation products, including other large, well-established insurance and financial services companies. We compete in the individual annuities business primarily based on our ability to offer innovative product features. Our risk management allows us to offer these features and helps to hedge or limit our exposure to certain of the related risks, utilizing a combination of product design elements, such as an automatic rebalancing element, also referred to as an asset transfer feature, and externally purchased hedging instruments. The automatic rebalancing element, included in the design of certain optional living benefits, transfers assets between variable investments selected by the annuity contractholder and investments that are expected to be more stable (e.g., a separate account bond portfolio), according to a static mathematical formula as discussed in more detail below. By transferring assets to the more stable investment, the automatic rebalancing element helps to reduce our risk associated with the optional living benefit. We have benefited from the impact of market disruptions on some of our competitors, certain of which have either exited the variable annuity marketplace or have implemented product modifications in recent years to increase pricing and scale back product features. Although we have implemented similar modifications, we believe our modified product offerings have remained competitively positioned. While new competitors are entering the market and others have become more aggressive in product design and pricing, we believe our product offerings and differentiated risk management strategies will continue to provide us with an attractive risk and profitability profile, as all currently-offered optional living benefit features include the automatic rebalancing element and most sales include the highest daily guaranteed contract value feature which is described below. In addition to our product features, we also compete based on brand recognition, the breadth of our distribution platform and our customer service capabilities.

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Products

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

Our variable annuity investment options provide our customers with the opportunity to invest in proprietary and non-proprietary mutual funds, frequently under asset allocation programs, and fixed-rate accounts. The investments made by customers in the proprietary and non-proprietary mutual funds generally represent separate account interests that provide a return linked to an underlying investment portfolio. The general account investments made in the fixed-rate accounts are credited with interest at rates we determine, subject to certain minimums. We also offer fixed annuities that provide a guarantee of principal and interest credited at rates we determine, subject to certain contractual minimums. Certain investments made in the fixed-rate accounts of our variable annuities and certain fixed annuities impose a market value adjustment if the invested amount is not held to maturity. Based on the contractual terms, the market value adjustment can be positive, resulting in an additional amount for the contractholder, or negative, resulting in a deduction from the contractholder s account value or redemption proceeds.

The primary risk exposures of our variable annuity contracts relate to actual deviations from, or changes to, the assumptions used in the original pricing of these products, including equity market returns, interest rates, market volatility, timing of annuitization and withdrawals, contract lapses and contractholder mortality. The rate of return we realize from our variable annuity contracts will vary based on the extent of the differences between our actual experience and the assumptions used in the original pricing of these products. As part of our risk management strategy, we hedge or limit our exposure to certain of these risks primarily through a combination of product design elements, such as an automatic rebalancing element, and externally purchased hedging instruments. Our returns can also vary by contract based on our risk management strategy, including the impact of any capital markets movements that we may hedge, the impact on that portion of our variable annuity contracts that benefit from the automatic rebalancing element, and the impact of risks that are not able to be hedged.

As of December 31, 2010, 73% of total variable annuity account values contain a living benefit feature and 76% of variable annuity account values with living benefit features included an automatic rebalancing element in the product design. The automatic rebalancing element, also referred to as an asset transfer feature, included in the design of certain optional living benefits, transfers assets between the variable investments selected by the annuity contractholder and, depending on the benefit feature, a fixed-rate account in the general account or a bond portfolio within the separate account. The transfers are based on the static mathematical formula used with the particular optional benefit which considers a number of factors, including the impact of investment performance on the contractholder s total account value. In general, negative investment performance may result in transfers to either a fixed-rate account in the general account or a bond portfolio within the separate account, and positive investment performance may result in transfers back to contractholder-selected investments. Overall, the automatic rebalancing element is designed to help mitigate our exposure to equity market risk and market volatility. Beginning in 2009, our offerings of optional living benefit features associated with currently-sold variable annuity products all include an automatic rebalancing element, and in 2009 we discontinued any new sales of optional living benefit features without an automatic rebalancing element. Other product design elements we utilize for certain products to manage these risks include asset allocation restrictions and minimum issuance age requirements. For information regarding the account values and net amount at risk associated with contracts which include the automatic rebalancing element, see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities Variable Annuity Net Amount at Risk.

As mentioned above, in addition to our automatic rebalancing element, we also manage certain risks associated with our variable annuity products through our hedging programs. In our living benefit hedging program, we purchase equity options and futures as well as interest rate derivatives to hedge certain optional living benefit features accounted for as embedded derivatives against changes in equity markets, interest rates, and market volatility. Historically, our hedging strategy sought to generally match the sensitivities of the embedded derivative liability as defined by GAAP, excluding the impact of the market-perceived risk of our own non-performance, with capital market derivatives and options. In the third quarter of 2010, we revised our hedging strategy as, in the low interest rate environment, we do not believe the GAAP value of the embedded derivative liability to be an appropriate measure for determining the hedge target. Our new hedge target continues to be grounded in a GAAP/capital markets valuation framework but incorporates modifications to the risk-free return assumption to account for the fact that the underlying customer separate account funds which support these living benefits are invested in assets that contain risk. Consistent with sound risk management practices, we evaluate hedge levels versus our target given overall capital considerations of the Company and prevailing capital market conditions and may decide to temporarily hedge to an amount that differs from our hedge target definition. Because this decision is based on the overall capital considerations of the Company as a whole, the impact on results from temporarily hedging to an amount that differs from our hedge target definition is reported through Corporate and Other operations. For information regarding the results of our hedging program, see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

In the second quarter of 2009, we began the expansion of our hedging program to include a portion of the market exposure related to the overall capital position of our variable annuity business, including the impact of certain statutory reserve exposures. These capital hedges primarily consisted of equity-based total return swaps that were designed to partially offset changes in our capital position resulting from market driven changes in certain living and death benefit features of our variable annuity products. During the second quarter of 2010, we removed the equity component of our capital hedge within the Individual Annuities segment by terminating the equity-based total return swaps, as part of a new program to more broadly address the equity market exposure of the statutory capital of the Company as a whole, under stress scenarios. Since the new program incorporates capital implications across a number of businesses, the results of the hedges under that program are reported within Corporate and Other operations. Additionally, as mentioned above, to the extent we decide to hedge to an amount that differs from our target hedge definition in our living benefit hedge program, those results would also be reported through Corporate and Other operations. We continue to assess the composition of the hedging program on an ongoing basis.

Marketing and Distribution

Prudential Agents

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

Third Party Distribution

Our individual annuity products are also offered through a variety of third party channels, including independent brokers, wirehouses, banks, and Allstate s proprietary distribution force. Our distribution efforts are supported by a network of 308 internal and external wholesalers as of December 31, 2010.

Underwriting and Pricing

We earn asset management and other fees determined as a percentage of the average assets of the proprietary mutual funds in our variable annuity products. We also earn mortality and expense fees and other fees for various insurance-related options and features, including optional guaranteed death and living benefit features, based on the average daily net asset value of the annuity separate accounts or the amount of guaranteed value under the optional living benefit, as applicable. We receive administrative service fees from many of the

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proprietary and non-proprietary mutual funds. We price our variable annuities, including optional guaranteed death and living benefits, based on an evaluation of the risks assumed and considering applicable hedging costs. We price our fixed annuities as well as the fixed-rate accounts of our variable annuities based on assumptions as to investment returns, expenses and persistency. Competition also influences our pricing. We seek to maintain a spread between the return on our general account invested assets and the interest we credit on our fixed annuities and the fixed-rate accounts of our variable annuities. For assets transferred to a fixed-rate account in the general account pursuant to the automatic rebalancing element discussed above, we earn a spread for the difference between the return on our general account invested assets and the interest credited, similar to our fixed annuities. To encourage persistency, most of our variable and fixed annuities have surrender or withdrawal charges for a specified number of years. In addition, the living benefit features of our variable annuity products encourage persistency because the potential value of the living benefit is fully realized only if the contract persists.

Reserves

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

Retirement

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

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

Union Bank of California s Retirement Business

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

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MullinTBG

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

Competition

The Retirement segment competes with other large, well-established insurance companies, asset managers, recordkeepers and diversified financial institutions. In our full service business, we compete primarily based on pricing, the breadth of our service and investment offerings, investment performance, and our ability to offer product features to meet the retirement income needs of our clients. We have seen a trend towards unbundling of the purchase decision related to the recordkeeping and investment offerings, where the variety and flexibility of available funds and their performance are key selection criteria to plan sponsors and intermediaries. In recent years, there has been consolidation among industry providers seeking to increase scale, improve cost efficiencies, and enter new market segments. However, the market remains competitive with few dominant players.

In our institutional investment products business, we compete primarily based on our pricing and structuring capabilities, which are supported by the financial strength ratings of our U.S. insurance companies. Sales of institutional investment products are affected by competitive factors such as investment performance, company credit and financial strength ratings, product design, marketplace visibility, distribution capabilities, fees, crediting rates, and customer service. In recent years, market disruptions and rating agency downgrades have caused some of our competitors to withdraw from the institutional market. A continuing lack of supply to the stable value wrap market has created a significant growth opportunity, which has resulted in a material increase in this business activity.

Products and Services

Full Service

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

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

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We also offer fee-based separate account products, through which customer funds are held in a separate account, retail mutual funds, institutional funds, or a client-owned trust. These products generally pass all of the investment results to the customer. In certain cases, these contracts are subject to a minimum interest rate guarantee backed by the general account. Additionally, we offer guaranteed minimum withdrawal benefits associated with certain defined contribution accounts, and hedge certain of the related risks utilizing externally purchased hedging instruments.

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

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

Institutional Investment Products

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

Stable Value Markets. Our stable value markets area manufactures investment-only products for use in retail and institutional capital markets and qualified plan markets. Our primary investment-only general account products are GICs, funding agreements, retail notes and institutional notes. This area also manufactures general and separate account and client-owned trust stable value products, the results of which are reflected in the full service business. We also offer investment-only stable value wrap products through which customers funds are held in either a client-owned trust or a separate account. We pass investment results through to the customer, subject to a minimum interest rate guarantee backed by the general account and earn fees for providing this guarantee.

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

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

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

Marketing and Distribution

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

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

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

Underwriting and Pricing

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

Reserves

We establish and carry as liabilities actuarially-determined reserves for future policy benefits that we believe will meet our future obligations for our in force annuity products. We base these reserves on assumptions we believe to be appropriate for investment yield, expenses, mortality rates, retirement, as well as margins for adverse deviation as appropriate. For accumulation products, we establish liabilities for policyholders account balances and additional reserves for investment experience that will accrue to the customer but have not yet been reflected in credited rates.

Asset Management

The Asset Management segment provides a broad array of investment management and advisory services by means of institutional portfolio management, mutual funds, asset securitization activity and other structured

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products, and proprietary investments. These products and services are provided to the public and private marketplace, as well as our U.S. Individual Life and Group Insurance division, International Insurance and Investments division and Individual Annuities and Retirement segments, as well as the Closed Block Business.

We earn asset management fees which are typically based upon a percentage of assets under management. In certain asset management fee arrangements, we also receive performance-based incentive fees when the return on assets under management exceeds certain benchmark returns or other performance targets. Transaction fees are earned as a percentage of the transaction price associated with the sale or purchase of assets in certain funds, primarily related to real estate. In addition, we earn commercial mortgage servicing fees and investment results from proprietary investing.

Competition

The Asset Management segment competes with numerous asset managers and other financial institutions. In the markets for our asset management products, we compete based on a number of factors, including investment performance, investment philosophy and process, talent, organizational stability and the client relationship. Our private placement and commercial mortgage businesses compete based on price, terms, execution and the strength of our relationship with the borrower. The competition will vary depending on the product or service being offered.

Operating Data

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

	December 31, 2010			
	Equity	Fixed Income(3)	Real Estate	Total
	(in billions)			
Institutional customers(1)	$ 51.3	$ 160.4	$ 23.6	$ 235.3
Retail customers(2)	72.7	27.0	1.5	101.2
General account	4.1	195.8	0.9	200.8
Total	$ 128.1	$ 383.2	$ 26.0	$ 537.3

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

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

(1) Consists of third party institutional assets and group insurance contracts.

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

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(3) Includes private fixed income and commercial mortgage assets of institutional customers of $10.9 billion as of December 31, 2010, $10.1 billion as of December 31, 2009 and $9.1 billion as of December 31, 2008, and private fixed income and commercial mortgage assets in our general account of $72.5 billion, $64.5 billion and $61.7 billion, as of those dates, respectively.

Products and Services

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

Public Fixed Income Asset Management

Our public fixed income organization manages fixed income portfolios for U.S. and international, institutional and retail clients, as well as for our general account. Our products include traditional broad market fixed income strategies and single-sector strategies. We manage traditional asset-liability strategies, as well as customized asset-liability strategies. We also manage hedge strategies, as well as collateralized loan obligations. We also serve as a non-custodial securities lending agent.

Portfolios are managed by seasoned portfolio managers across six sector specialist teams: Corporate, Leveraged Finance, Emerging Markets, Global Rates and Securitized Products, Municipals and Money Markets. A separate team is dedicated to securities lending activities. All strategies are managed using a research-based approach, supported by significant credit research, quantitative research, and risk management organizations.

Public Equity Asset Management

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

Private Fixed Income Asset Management

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

Commercial Mortgage Origination and Servicing

Our commercial mortgage operations provide mortgage origination, asset management and servicing for our general account, institutional clients, and government-sponsored entities such as Fannie Mae, the Federal Housing Administration, and Freddie Mac. Through the third quarter of 2008, we had originated shorter-term interim loans for spread lending that are collateralized by assets generally under renovation or lease up. Due to unfavorable market conditions experienced at that time and the inherent risk of these loans, we suspended the origination of interim loans. Our interim loans are generally paid off through refinancing or the sale by the borrower of the underlying collateral. These loans are inherently more risky than those collateralized by properties that have already stabilized. As of December 31, 2010, the principal balance of interim loans totaled $1.3 billion.

Real Estate Asset Management

Our global real estate organization provides asset management services for single-client and commingled private and public real estate portfolios and manufactures and manages a variety of real estate investment vehicles investing in private and public real estate, primarily for institutional clients through 20 offices worldwide. Our domestic and international real estate investment vehicles range from fully diversified open-end funds to specialized closed-end funds that invest in specific types of properties or specific geographic regions or follow other specific investment strategies. Our global real estate organization has an established presence in the U.S., Europe, Asia and Latin America.

Proprietary Investments

We make proprietary investments to support the creation and management of funds offered to third-party investors in private and public real estate, fixed income and public equities asset classes. The fair value of these investments was approximately $1.1 billion and $1.0 billion as of December 31, 2010 and 2009, respectively. For more information on these investments, see Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Asset Management. Certain of these investments are made primarily for purposes of co-investment in our managed funds and structured products. Other proprietary investments are made with the intention to sell or syndicate to investors, including our general account, or for placement in funds and structured products that we offer and manage (seed investments). We also make loans to, and guarantee obligations of, our managed funds that are secured by equity commitments from investors or assets of the funds.

Mutual Funds and Other Retail Services

We manufacture, distribute and service investment management products primarily utilizing proprietary asset management expertise in the U.S. retail market. Our products are designed to be sold primarily by financial professionals including both Prudential Agents and third party advisors. We offer a family of retail investment products consisting of 41 mutual funds as of December 31, 2010. These products cover a wide array of investment styles and objectives designed to attract and retain assets of individuals with varying objectives and to accommodate investors changing financial needs.

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

Marketing and Distribution

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

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

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

U.S. Individual Life and Group Insurance Division

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

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Individual Life

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

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

Competition

The Individual Life segment competes with large, well-established life insurance companies. We compete primarily based on price, service, distribution channel relationships, brand recognition and financial stability. Due to the large number of competitors, price competition is strong. Factors that could influence our ability to competitively price products while achieving targeted returns include: the cost and availability of financing for statutory reserves required for certain term and universal life insurance policies, the timing of and our ability to utilize tax deductions associated with statutory reserves, product designs which impact the amount of statutory reserves and the associated tax deductions, and the level of and pace of changes in interest rates. The current environment of low interest rates and volatile equity markets has resulted in a greater demand for dividend-paying whole life products across the industry which we no longer offer.

Products

Our primary insurance products are variable life, term life and universal life and represent 42%, 49% and 8%, respectively, of our face amount of individual life insurance, net of reinsurance, in force at the end of 2010. In recent years, as term life insurance sales have increased and variable life insurance sales have decreased, we have seen term life insurance become a larger percentage of our net in force.

Across all of our products we offer a living benefits option that allows insureds who are diagnosed with a terminal illness, or permanently confined to a nursing home, to receive a portion of their insurance benefit upon diagnosis, in advance of death, to use as needed.

We have a variety of settlement and payment options for the settlement of life insurance claims in addition to lump sum checks, including placing benefits in retained asset accounts, which earn interest and are subject to withdrawal in whole or in part at any time by the beneficiaries.

Variable Life Insurance

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

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

Term Life Insurance

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

Individual Life profits from term insurance are not expected to directly correlate, from a timing perspective, with the increase in term insurance in force. This results from uneven product profitability patterns, as well as varying costs of our ongoing capital management activities related to a portion of the statutory reserves associated with these products, which may vary with each year of business issued.

Universal Life Insurance

We offer universal life insurance products that feature a fixed crediting rate that varies periodically based on portfolio returns, flexible premiums and a choice of guarantees against lapse. Universal life policies provide for the deduction of charges and expenses from the policyholders contract fund. Individual Life profits from universal life insurance are impacted by mortality and expense margins and net interest spread.

Marketing and Distribution

Third Party Distribution

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

Prudential Agents

Our Prudential Agents distribute Prudential variable, term and universal life insurance, variable and fixed annuities, long-term care, and investment and other protection products with proprietary and non-proprietary investment options as well as selected insurance and investment products manufactured by others. The number of Prudential Agents was 2,471, 2,447 and 2,360 at December 31, 2010, 2009 and 2008, respectively. Over the same period, average agent productivity, based upon average commissions on new sales of all products by Prudential Agents, has decreased to $52,739 for 2010 from $57,700 for 2008 due to unstable market conditions and the shift of the agent population toward new and less experienced agents, which tends to temporarily depress overall productivity.

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

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

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

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

Underwriting and Pricing

For our fully underwritten life insurance, underwriters follow detailed and uniform policies and procedures to assess and quantify the risk of our individual life insurance products. Depending on the age of the applicant and amount of insurance requested, we require the applicant to take a variety of underwriting tests, such as medical examinations, electrocardiograms, blood tests, urine tests, and gather information such as physician records and investigative reports. We base premiums and policy charges for individual life insurance on expected death benefits, surrender benefits, expenses and required reserves. We use assumptions for mortality, interest, expenses, policy persistency, and premium payment pattern in pricing policies. Some of our policies are fully guaranteed. Others have current premiums/charges and interest credits that we can change subject to contractual guarantees.

Our operating results are impacted by changes in interest rates. We routinely update the interest crediting rates that we credit to policyholder accounts on our universal life policies and on the fixed account of our variable life policies, which are both subject to contractual minimum rates. In resetting these rates, we consider the returns on our portfolios supporting these policies, current interest rates, the competitive environment and our profit objectives. We seek to maintain a spread between the return on our general account invested assets and the interest we credit on our policyholder accounts. We seek to mitigate interest rate risks, including those associated with the current low interest rate environment, with active asset/liability matching portfolio management. For term life products, interest rate assumptions used to calculate reserves are fixed at the policy issue date and subsequent declines in portfolio yields have an immediate impact on product profitability.

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

Reserves

We establish and carry as liabilities actuarially-determined reserves for future policy benefits that we believe will meet our future obligations for in force life policies. We base these reserves on assumptions we believe to be appropriate for investment yield, persistency, expenses, mortality and morbidity rates, as well as margins for adverse deviation. For certain products, such as term and universal life, we are required to hold statutory reserves in excess of these liabilities. In these circumstances we engage in capital management activities to reduce the financial and pricing impact of carrying a portion of these excess statutory reserves. For variable and interest-sensitive life insurance contracts, we establish liabilities for policyholders account balances that represent cumulative gross premium payments plus credited interest and/or fund performance, less withdrawals, expenses and cost of insurance charges.

Reinsurance

The Individual Life segment uses reinsurance as a means of managing mortality volatility and risk capacity, which can impact product profitability. Since 2000, we have reinsured a significant portion of the mortality risk we assume under our newly-sold individual life insurance policies. The maximum exposure we retain is $30 million on a single life and $35 million on a second-to-die policy. In some instances, lower limits apply. If a third party reinsurer is, for some reason, unable to meet its obligations, we remain liable. On a Company wide basis, we evaluate the financial condition of reinsurers and monitor the concentration of credit risk to mitigate this exposure.

Group Insurance

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

Competition

The Group Insurance segment competes with other large, well-established life and health insurance providers in the U.S. markets, and is a top provider of both group life and disability insurance. The markets in which we compete are mature markets, hence we compete primarily based on strong brand recognition, service capabilities, customer relationships, financial stability and range of product offerings. Due to the large number of competitors, price competition is strong. The majority of our premiums are derived from large corporations, affinity groups or other organizations, such as those with over 10,000 insured individuals. We have a strong portfolio of products and the ability to meet complex needs of the large clients, providing opportunities for continuing stabilized premiums and growth. Employee-pay (voluntary) coverage has become increasingly important in today s environment as employers attempt to control costs and shift benefit decisions/funding to employees who continue to value benefits offered at the workplace.

Products

Group Life Insurance

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

We have a variety of settlement and payment options for the settlement of life insurance claims in addition to lump sum checks, including placing benefits in retained asset accounts, which earn interest and are subject to withdrawal in whole or in part at any time by the beneficiaries.

Group Disability Insurance

We offer short- and long-term group disability insurance, which protects against loss of wages due to illness or injury. Short-term disability generally provides a weekly benefit amount (typically 50% - 70% of the

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

Other

We offer individual and group long-term care insurance, group corporate-, bank- and trust-owned life insurance and preferred provider organization (PPO) and indemnity dental plans. Long-term care insurance protects the insured from the costs of an adult day care center, a nursing home or similar live-in care situation or a home health or a personal care aide. Group corporate- and trust-owned life insurance are group variable life insurance contracts typically used by large corporations to fund deferred compensation plans and benefit plans for retired employees. PPO and indemnity dental products, as well as voluntary dental plans, are sold to groups with between 25 and 1,000 employees with no benefit waiting periods.

Marketing and Distribution

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

Underwriting and Pricing

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

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

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

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

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Reserves

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

Reinsurance

The Group Insurance segment uses reinsurance to limit losses from large exposures, and in response to client requests. To a smaller extent, we also assume risk through reinsurance in certain situations. If a third party reinsurer is, for some reason, unable to meet its obligations, we remain liable. On a Company wide basis, we evaluate the financial condition of reinsurers and monitor concentration of counterparty risk to mitigate this exposure.

International Insurance and Investments Division

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

International Insurance

Our International Insurance segment manufactures and distributes individual life insurance, retirement and related products, including certain health riders with fixed benefits, to the mass affluent and affluent markets in Japan, Korea and other countries outside the U.S. through its Life Planner operations. In addition, we offer similar products to the broad middle income market across Japan through Life Advisors, who are associated with our separately-operated Gibraltar Life Insurance Company, Ltd., or Gibraltar Life, operation, which we acquired in April 2001. We commenced sales in non-U.S. markets through our Life Planner operations, as follows: Japan, 1988; Taiwan, 1990; Italy, 1990; Korea, 1991; Brazil, 1998; Argentina, 1999; Poland, 2000; and Mexico, 2006. For the year ended December 31, 2010, our Life Planner operations in Japan and Korea, and our Gibraltar Life operations represented 48%, 10% and 37%, respectively, of the net premiums, policy charges and fee income of the International Insurance segment, and in aggregate, represented 48% of the net premiums, policy charges and fee income of the Financial Services Businesses, translated on the basis of weighted average monthly exchange rates. We continue to explore opportunities for a more diverse mix of business including an increased focus on the international retirement market.

We continue to seek opportunities for expansion into high-growth markets in targeted countries, such as in China and India. During 2007, we entered into a joint venture in India where we have a 26% interest, the maximum currently allowed by regulation in India. The joint venture received its insurance license in June 2008 and commenced sales of life insurance products shortly thereafter. In addition, we also have an investment in China, through a consortium of investors that holds a minority interest in China Pacific Insurance (Group) Co., Ltd. In December 2009, China Pacific Insurance (Group) Co., Ltd. listed its shares on the Hong Kong exchange, and the consortium of investors agreed not to sell its shares before one year from the listing. In December 2010, the consortium of investors sold 16% of its holdings, resulting in a pre-tax gain of $66 million to Prudential, and sold approximately 40% of its remaining holdings in the first quarter of 2011, resulting in a pre-tax gain of $153 million to Prudential.

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

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

On February 1, 2011, Prudential Financial completed the acquisition from American International Group, Inc., or AIG, of AIG Star Life Insurance Co., Ltd., or Star, AIG Edison Life Insurance Company, or Edison, and certain other AIG subsidiaries (collectively, the Star and Edison Businesses) pursuant to the stock purchase agreement dated September 30, 2010 between Prudential Financial and AIG. The total purchase price was approximately $4.8 billion, comprised of approximately $4.2 billion in cash and $0.6 billion in assumed third party debt, substantially all of which is expected to be repaid, over time, with excess capital of the acquired entities. All acquired entities are Japanese corporations and their businesses are in Japan. Prudential Financial intends to make a Section 338 election under the Internal Revenue Code with respect to the acquisition resulting in the acquired entities being treated for U.S. tax purposes as newly-incorporated companies.

The acquired businesses distribute individual life insurance, group life insurance, group annuities, medical insurance, and fixed annuities primarily through captive agents, independent agents, and banks. As of December 31, 2010, these businesses had approximately $174 billion face amount of in force individual insurance and approximately 7,490 captive agents. The addition of these operations to our existing businesses will increase our scale in the Japanese insurance market and provide complementary distribution opportunities. Star and Edison s bank channel distribution will be transferred and integrated with Prudential Gibraltar Financial Life Insurance Company, Ltd., or Prudential Gibraltar Financial. In addition, we expect to integrate the core operations of Star and Edison, excluding their bank channel distribution, with our Gibraltar Life operations by early 2012, subject to local regulatory approvals.

Acquisition of Yamato Life

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

Competition

The life insurance markets in Japan and Korea are quite mature and highly penetrated. Private-sector life insurance companies also compete with life insurance cooperatives and postal insurance entities in these markets. Generally, the cooperatives and postal insurance entities are not subject to the stringent insurance regulations that are effective for private-sector life insurers. We generally compete more on service provided to the customers than on price. In our operations other than Gibraltar Life and our joint venture in India, we compete by focusing primarily on a limited market using our Life Planner model to offer high quality service and needs-based protection products. The success of our model in some markets makes us vulnerable to imitation and targeted recruitment of our sales force; thus the loss of highly-skilled and productive Life Planners to competitors is a significant competitive risk. We direct substantial efforts to recruit and retain our Life Planners by continuously evaluating and adjusting our training and compensation programs, where appropriate, to positively impact retention.

Products

We currently offer various traditional whole life, term life, and endowment policies, which provide for payment on the earlier of death or maturity, as well as retirement income life insurance products that combine an insurance protection element similar to that of term life policies with a retirement income feature. In 2010, Gibraltar Life introduced a cancer whole life product which appeals to the business market because of its favorable tax treatment. In some of our operations we also offer certain health riders with fixed benefits, as well as annuity products, which are primarily represented by U.S. dollar denominated fixed annuities in Gibraltar Life and variable annuities in Korea. In 2009, Gibraltar Life expanded its fixed annuity products, which now includes Australian dollar, Euro, and Yen denominated products. These contracts impose a market value adjustment if the

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invested amount is not held to maturity. The market value adjustment can be positive, resulting in an additional amount for the contractholder, or negative, resulting in a deduction from the contractholder s account value or redemption proceeds. We also offer variable life products in Japan, Korea, Taiwan and Poland and interest-sensitive life products in Japan, Korea, Taiwan and Argentina. Generally, our international insurance products are non-participating and denominated in local currency. Certain of our operations also offer U.S. dollar denominated products. Where non-local currency products are offered, both the premiums and benefits are guaranteed in the currency of the product offered.

Marketing and Distribution

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

	As of December 31,		
	2010	**2009**	**2008**
Life Planners:			
Japan(1)	3,122	3,094	3,071
All other countries	3,443	3,515	3,294
Life Advisors	6,281	6,398	6,330
Total	12,846	13,007	12,695

(1) In 2010, 2009 and 2008, 92, 152 and 70 Life Planners, respectively, were transferred to Gibraltar Life. Of the transferred Life Planners, 45, 54 and 43, in 2010, 2009 and 2008, respectively, were transferred to support our efforts to expand our bank channel distribution. The remainder have joined either as Gibraltar Life Advisors or as an associate in the agency branch discussed below. The Life Planners transferred to support bank channel distribution and the agency branch are not included in the Life Advisor counts above.

Life Planner Model

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

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

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

The number of Life Planners in our Japanese operation was stable, from December 31, 2009 to December 31, 2010. This includes the impact of the transfer of 92 Life Planners to Gibraltar Life during this period, primarily in support of our efforts to expand the bank channel distribution and to service orphaned policyholders discussed below. This also reflects the Company s efforts to further improve retention and the quality of Life Planners by selective screening. The decrease in Life Planners in all other countries, from December 31, 2009 to December 31, 2010, was driven by decreases of 76, 53 and 31, in Taiwan, Poland, and Argentina, respectively, and was partially offset by increases of 43 in Italy and 36 in Brazil.

Life Advisors

Our Life Advisors are the proprietary distribution force for products offered by Gibraltar Life. Their focus is to provide individual protection products to the broad middle income market in Japan, particularly through relationships with affinity groups. Our Life Advisor operation is based on a variable compensation plan designed

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to improve productivity and persistency that is similar to compensation plans in our Life Planner operations. The number of Life Advisors decreased in 2010 primarily reflecting disciplined hiring standards intended to enhance retention and productivity.

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

Bank Distribution Channel

In 2006, Gibraltar Life commenced sales, primarily of U.S. dollar denominated fixed annuity products, through banks to supplement its core Life Advisor distribution channel. During 2009, the fixed annuity product offering was expanded to include Australian dollar, Euro, and Yen denominated products. Beginning in early 2008, Gibraltar Life began selling protection products, both Yen- and U.S. dollar denominated, as a result of the liberalization of banking regulations allowing for the sale of additional insurance products. Sales of products primarily intended to provide premature death protection comprised a major portion of bank channel sales for 2010. As of December 31, 2010, most of the bank channel distribution for Japan is placed through Prudential Gibraltar Financial. As of December 31, 2010, there were distribution agreements with thirty-one banks; however, a significant amount of our sales in Japan through our bank channel distribution is derived through a single Japanese mega-bank. We recently initiated a distribution relationship with a second large Japanese bank and will continue to explore other opportunities to expand our distribution capabilities through the bank channel, as well as other complementary distribution channels.

Underwriting and Pricing

Our International Insurance segment is subject to substantial local regulation that is generally more restrictive for product offerings, pricing and structure than U.S. insurance regulation. Each International Insurance operation has its own underwriting department that employs variations of U.S. practices in underwriting individual policy risks. In setting underwriting limits, we also consider local industry standards to prevent adverse selection and to stay abreast of industry trends. In addition, we set underwriting limits together with each operation s reinsurers.

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

Reserves

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

In some of the markets in which we operate, it is difficult to find appropriate long-duration assets to match the characteristics of our long-duration product liabilities. Due to the long-term nature of many of the products we sell in Japan, we have historically sought to increase the duration of our Japanese yen investment portfolio by employing various strategies, including investing in longer-term securities or, by entering into long-duration

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floating-to-fixed interest rate swaps. These strategies better support the characteristics of our long-dated product liabilities, and have resulted in higher portfolio yields. We continue to manage the interest rate risk profile of our businesses in the context of market conditions and relative opportunities, and will implement these hedging strategies to lengthen the duration of our Japanese investment portfolio as our assessment of market conditions dictates. As we do so, the impact to our portfolio yields upon the resumption of these strategies will depend on the then current interest rate environment.

Reinsurance

International Insurance reinsures portions of its insurance risks, primarily mortality, with both selected third party reinsurers and Prudential Insurance. International Insurance also buys catastrophe reinsurance that covers multiple deaths from a single occurrence in our Life Planner operations in Japan, Taiwan and Brazil. We also have coinsurance agreements with Prudential Insurance for the U.S. dollar denominated business in our Japanese Life Planner insurance operations. If a third party reinsurer is, for some reason, unable to meet its obligations, we remain liable. On a Company wide basis, we evaluate the financial condition of reinsurers and monitor the concentration of credit risk to mitigate this exposure.

International Investments

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

Our international investments operations include manufacturing of proprietary products and distribution of both proprietary and non-proprietary products, tailored to meet client needs. In this business, we invest in asset management and distribution businesses in targeted countries, including through investments in operating joint ventures, to expand our mass affluent customer base outside the U.S. and to increase our global assets under management. We seek to establish long-term relationships with our clients through third party channels as well as our proprietary distribution networks. Additionally, this business manages large portions of the general account investment portfolios of our international insurance operations.

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

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

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

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

On October 6, 2009, we sold our mutual fund and banking operations in Mexico. This transaction did not include our insurance business, our pension fund business or our real estate investments that are located in Mexico.

On June 1, 2010, we sold Prudential Investment & Securities Co., Ltd. and Prudential Asset Management Co., Ltd, which together comprised our Korean asset management operations.

In the third quarter of 2010, we reached an agreement with our Everbright joint venture partner to purchase an additional 12% stake in the company. This additional investment, which is pending approval from the China Securities Regulatory Commission, would increase our ownership interest to 45%.

Corporate and Other

Corporate and Other includes corporate operations, after allocations to our business segments and the real estate and relocation services business, as well as divested businesses except for those that qualify for discontinued operations accounting treatment under U.S. GAAP.

Corporate Operations

Corporate operations consist primarily of: (1) investment returns on capital that is not deployed in any business segments; (2) returns from investments not allocated to business segments, including debt-financed investment portfolios, as well as tax credit investments and other tax enhanced investments financed by business segments; (3) capital debt that is used or will be used to meet the capital requirements of the Company and the related interest expense; (4) income and expense from qualified pension and other employee benefit plans, after allocations to business segments; (5) corporate-level income and expense, after allocations to business segments, including corporate governance, corporate advertising, philanthropic activities and deferred compensation; (6) certain retained obligations relating to pre-demutualization policyholders whom we had previously agreed to provide insurance for reduced or no premium in accordance with contractual settlements related to prior individual life insurance sales practices remediation; (7) businesses that we have placed in wind-down status but have not divested; (8) results of our capital protection strategies; and (9) the impact of transactions with other segments.

The wind-down businesses, which are included in the results of our corporate operations, consist of the following:

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

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

Our capital hedge program within corporate operations includes the following:

We include in corporate operations the results of our capital hedge program which broadly addresses the equity market exposure of the statutory capital of the Company as a whole, under stress scenarios, as described under Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity and Capital Resources of Subsidiaries Domestic Insurance Subsidiaries.

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We manage certain risks associated with our variable annuity products through our living benefit hedging program, which is described under Management s Discussion and Analysis of Financial Condition and Results of Operations U.S. Retirement Solutions and Investment Management Division Individual Annuities. Consistent with sound risk management practices, we evaluate hedge levels versus our target given overall capital considerations of the Company and prevailing capital market conditions and may decide to temporarily hedge to an amount that differs from our hedge target definition. Because this decision is based on the overall capital considerations of the Company as a whole, the impact on results from temporarily hedging to an amount that differs from our target hedge definition is reported through corporate operations. See Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity and Capital Resources of Subsidiaries Domestic Insurance Subsidiaries for additional discussion.

Consistent with the amendment of our definition of adjusted operating income in the third quarter of 2010, adjusted operating income excludes market value changes of derivatives used in our capital hedge program, as well as the net impact of embedded derivatives related to our living benefit features and related hedge positions, including the impact of hedging to an amount that differs from our target hedge definition. See Management s Discussion and Analysis of Financial Condition and Results of Operations Consolidated Results of Operations Segment Measures for additional information and an explanation of adjusted operating income.

We assess the composition of these hedging programs on an ongoing basis, and we may change it from time to time based on our evaluation of the Company s risk position or other factors.

Residential Real Estate Brokerage Franchise and Relocation Services

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

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

Divested Businesses

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

Financial Advisory

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

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On July 1, 2003, we combined our retail securities brokerage and clearing operations with those of Wachovia Corporation (Wachovia) and formed Wachovia Securities Financial Holdings, LLC (Wachovia Securities). On December 31, 2008, Wachovia merged with and into Wells Fargo & Company (Wells Fargo), which succeeded to Wachovia s rights and obligations under the joint venture agreements. On December 31, 2009, we completed the sale of our minority joint venture interest in Wachovia Securities, which includes Wells Fargo Advisors, to Wells Fargo. For more information on our former investment in the Wachovia Securities joint venture see Note 7 to the Consolidated Financial Statements.

Commercial Mortgage Securitization Operations

In 2008, we classified our commercial mortgage securitization operations as a divested business, reflecting our decision to exit this business. These operations, which involved the origination and purchase of commercial mortgage loans that we in turn would aggregate and sell into commercial mortgage-backed securitization transactions, together with related hedging activities, were previously reported within the Asset Management segment. We retained and continue the remainder of our commercial mortgage origination, servicing and other commercial mortgage related activities, which remain a part of our Asset Management segment.

Property and Casualty Insurance

In 2003, we sold our property and casualty insurance companies, which included Prudential Property and Casualty Insurance Company (Prupac) that operated nationally in 48 states outside of New Jersey, and the District of Columbia, to Liberty Mutual Group, or Liberty Mutual. We have agreed not to compete with the buyers. A non-compete agreement is effective until the termination of our distribution agreement with Liberty Mutual. We have reinsured Liberty Mutual for adverse loss development for specific property and casualty risks that Liberty Mutual did not want to retain. We believe that we have adequately reserved for our remaining property and casualty obligations under these reinsurance contracts based on the current information available; however, we may be required to take additional charges in the future that could be material to our results of operations in a particular quarterly or annual period.

In connection with the sale, Liberty Mutual has the right to sell Prupac back to us. This right became exercisable by Liberty Mutual as of October 31, 2010. Under the terms of the put right, the business transferring to us would be the business we already reinsure, as described in the preceding paragraph. Any business written after the 2003 sale and prior to a put closing would also transfer to us but would be fully reinsured by Liberty Mutual.

Prudential Securities Capital Markets

In 2000, we announced a restructuring of Prudential Securities activities to implement a fundamental shift in our business strategy. We subsequently exited the lead-managed equity underwriting business for corporate issuers and the institutional fixed income business. As of December 31, 2010 we had remaining assets amounting to $74 million related to Prudential Securities institutional fixed income activities.

Other

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

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

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Discontinued Operations

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

- We sold substantially all of the assets and liabilities of our group managed and indemnity healthcare business to Aetna Inc. in 1999.
- We discontinued certain branches of our international securities operations in the fourth quarter of 2002. In the fourth quarter of 2004 we discontinued the remaining branches of our international securities operations.
- We discontinued our Philippine insurance operations in the second quarter of 2006 and subsequently sold these operations in the third quarter of 2006.
- In the third quarter of 2006, we entered into a reinsurance transaction related to the Canadian Intermediate Weekly Premium and Individual Health operations, which resulted in these operations being accounted for as discontinued operations.
- We discontinued the equity sales, trading and research operations of the Prudential Equity Group in the second quarter of 2007.
- We discontinued our Mexican asset management operations in the second quarter of 2009 and subsequently sold these operations in the fourth quarter of 2009.
- We discontinued our Korean asset management operations in the first quarter of 2010 and subsequently sold these operations in the second quarter of 2010.

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

Closed Block Business

In connection with the demutualization, we ceased offering domestic participating individual life insurance and annuity products, under which policyholders are eligible to receive policyholder dividends reflecting experience. The liabilities for our individual in force participating products were segregated, together with assets that will be used exclusively for the payment of benefits and policyholder dividends, expenses and taxes with respect to these products, in the Closed Block. We selected the amount of Closed Block Assets that we expect will generate sufficient cash flow, together with anticipated revenues from the Closed Block Policies, over the life of the Closed Block to fund payments of all expenses, taxes, and policyholder benefits and to provide for the continuation of the policyholder dividend scales in effect in 2000, assuming experience underlying such scales continues. For accounting purposes, we also segregated the Surplus and Related Assets that we needed to hold outside the Closed Block to meet capital requirements related to the policies included within the Closed Block at the time of demutualization. No policies sold after demutualization will be added to the Closed Block, and its in force business is expected to decline as we pay policyholder benefits in full. We also expect the proportion of our business represented by the Closed Block to decline as we grow other businesses. The Closed Block forms the principal component of the Closed Block Business. As of December 31, 2010, total attributed equity of the Closed Block Business represented 5% of the Company s total attributed equity. For additional discussion of the Closed Block Business, see Demutualization and

Separation of the Businesses Separation of the Businesses.

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

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As discussed in Note 12 to the Consolidated Financial Statements, if the performance of the Closed Block is more or less favorable than we originally assumed in funding, total dividends paid to Closed Block policyholders in the future may be greater or less than the total dividends that would have been paid to these policyholders if the policyholder dividend scales in effect in 2000 had been continued. Any cash flows in excess of amounts assumed will be available for distribution over time to Closed Block policyholders as part of policyholder dividends, and it will not be available to shareholders. A policyholder dividend obligation liability is established for these excess cash flows. Each year, the Board of Directors of Prudential Insurance determines the dividends payable on participating policies for the following year based on the experience of the Closed Block, including investment income, net realized and unrealized investment gains, mortality experience and other factors. See Note 22 to the Consolidated Financial Statements for revenues, income and loss, and total assets of the Closed Block Business.

Intangible and Intellectual Property

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

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

Competition

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

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

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

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

Competition for personnel in our businesses is intense, including for executive officers and management personnel, Prudential Agents, Life Planners, Life Advisors and other sales personnel, and our investment managers. In the ordinary course of business, we lose personnel from time to time in whom we have invested significant training. We direct substantial efforts to recruit and retain our insurance agents and employees and to increase their productivity. Competition for desirable non-affiliated distribution channels is also intense.

Many of our businesses are in industries where access to multiple sales channels may be a competitive advantage. We currently sell insurance and investment products through both affiliated and non-affiliated distribution channels, including: (1) our captive sales channel; (2) independent agents, brokers and financial planners; (3) broker-dealers that generally are members of the New York Stock Exchange, including wirehouse and regional broker-dealer firms; (4) broker-dealers affiliated with banks or that specialize in marketing to customers of banks; (5) intermediaries such as retirement plan administrators; and (6) a rapidly growing bank channel in Japan. While we believe that certain insurance and investment products will continue to be sold primarily through face-to-face sales channels, customers desire for objective and not product-related advice may, over time, increase the amount of such insurance and investment products sold through non-affiliated distributors. In addition, we expect that certain insurance and investment products will increasingly be sold through direct marketing, including through electronic commerce.

Although we distribute our products through a wide variety of distribution channels, we do maintain relationships with certain key distributors. For example, a significant amount of our sales in Japan through banks is derived through a single Japanese mega-bank and a significant portion of our sales in Japan through Life Advisors is derived through a single association relationship. We recently initiated a distribution relationship with a second large Japanese bank and will continue to explore other opportunities to expand our distribution capabilities through the bank channel, as well as other complementary distribution channels. We periodically negotiate the terms of these relationships, and there can be no assurance that such terms will remain acceptable to us or such third parties.

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

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

Regulation

Overview

Our businesses are subject to comprehensive regulation and supervision. The purpose of these regulations is primarily to protect our customers and not necessarily our shareholders. Many of the laws and regulations to which we are subject are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations. The recent financial market dislocations produced, and are expected to continue to produce, extensive changes in existing laws and regulations, and regulatory frameworks, applicable to our businesses in the U.S. and internationally, including the Dodd-Frank Wall Street Reform and Consumer Protection Act discussed below. U.S. law and regulation of our international businesses, particularly as it relates to monitoring customer activities, has increased in recent years as a result of terrorist activity in the U.S. and abroad.

Regulation Affecting Prudential Financial

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

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), which effects comprehensive changes to the regulation of financial services in the United States and subjects us to substantial additional federal regulation. Dodd-Frank directs existing and newly-created government agencies and bodies to conduct certain studies and promulgate regulations implementing the law, a process anticipated to occur over the next few years. We cannot predict with any certainty the results of the studies or the requirements of the regulations ultimately adopted or how Dodd-Frank and such regulations will affect the financial markets generally, impact our business, credit or financial strength ratings, results of operations, cash flows or financial condition or make it advisable or require us to hold or raise additional capital.

Key aspects we have identified to date of Dodd-Frank s potential impact on us include:

Prudential Financial will become subject, as a savings and loan holding company, to the examination, enforcement and supervisory authority of the Board of Governors of the Federal Reserve System (FRB) after the transfer to the FRB of the existing authority of the Office of Thrift Supervision (expected to occur July 21, 2011). The FRB will have authority, among other powers, to impose capital requirements on the Company after the transfer date. Pursuant to the Collins Amendment included in Dodd-Frank, the FRB must establish minimum leverage and risk-based capital requirements for savings and loan holding companies (including Prudential Financial) and other institutions that are not less than those applicable to insured depository institutions. These requirements will become generally applicable to Prudential Financial on July 21, 2015 (five years after Dodd-Frank s enactment) except, for purposes of calculating Tier 1 capital, new issuances of debt and equity capital will be immediately subject to the requirements. The risk-based capital requirements currently applicable to most bank holding companies and insured depository institutions are based on the 1988 Capital Accord (Basel I) of the Basel Committee on Banking Supervision (the Basel Committee); U.S. federal bank regulatory agencies have also adopted new risk-based capital guidelines for large, internationally active banking organizations based on revisions to Basel I issued by the Basel Committee in 2004 (Basel II). In December 2010, the Basel Committee released its final framework for strengthening international capital and liquidity regulation (Basel III). Basel III, when implemented by U.S. regulation and fully phased-in, will require bank holding companies and insured depository institutions to maintain substantially more capital, with a greater emphasis on common equity, and to comply with liquidity coverage and net stable funding standards, including the imposition of a counter-cyclical capital buffer. The Collins Amendment requires the FRB to adopt regulations imposing a continuing floor of the Basel I-based capital requirements in cases where the Basel II-based capital requirements and any changes in capital regulations resulting from Basel III otherwise would permit lower requirements. In December 2010, the

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FRB published for comment proposed regulations implementing this requirement, including a proposal to permit flexibility in the application of certain capital requirements imposed by Dodd-Frank to non-bank financial companies such as Prudential Financial. We cannot predict what capital regulations the FRB will promulgate under these authorizations, either generally or as applicable to insurance-based organizations. We cannot predict how the FRB will exercise general supervisory authority over us as to the Company s business practices.

Dodd-Frank establishes a Financial Stability Oversight Council (Council) which is authorized to subject non-bank financial companies such as Prudential Financial to stricter prudential standards (a Designated Financial Company) if the Council determines that material financial distress at the company or the scope of the company s activities could pose a threat to financial stability of the U.S. If so designated, we would become subject to unspecified stricter prudential standards, including stricter requirements and limitations relating to risk-based capital, leverage, liquidity and credit exposure, as well as overall risk management requirements, management interlock prohibitions and a requirement to maintain a plan for rapid and orderly dissolution in the event of severe financial distress. The Collins Amendment capital requirements referred to above would apply when adopted by the FRB (i.e., the 5-year grandfathering would no longer be available). The FRB could also require the issuance of capital securities automatically convertible to equity in the event of financial distress, require enhanced public disclosures to support market evaluation of risk profile and impose short-term debt limits. If Prudential Financial or a subsidiary were so designated, failure to meet defined measures of financial condition could result in: limits on capital distributions, acquisitions and/or asset growth; requirements for a capital restoration plan and capital raising; limitations on transactions with affiliates; management changes and asset sales; and, if the FRB and the Council determined Prudential Financial (or the designated subsidiary) posed a grave threat to the financial stability of the U.S., further limits on acquisitions or combinations, restrictions on product offerings and/or requirements to sell assets. In January 2011, the Council published for comment proposed regulations setting forth the criteria by which it will determine Designated Financial Companies. The proposed criteria, which may differ among industries, include size, lack of substitutes for the financial services and products provided, interconnectedness with other financial firms, leverage, liquidity risk and maturity mismatch, and existing regulatory scrutiny. We cannot predict whether Prudential Financial or a subsidiary will be designated as a Designated Financial Company.

We will become, as a savings and loan holding company (and if designated as a Designated Financial Company), subject to stress tests to be promulgated by the FRB in consultation with the newly-created Federal Insurance Office (discussed below) to determine whether, on a consolidated basis, we have the capital necessary to absorb losses as a result of adverse economic conditions. We cannot predict how the stress tests will be designed or conducted or whether the results thereof will cause us to alter our business practices or affect the perceptions of regulators, rating agencies, customers, counterparties or investors of our financial strength.

The Council may recommend that state insurance regulators or other regulators apply new or heightened standards and safeguards for activities or practices we and other insurers or other financial services companies engage in that could create or increase the risk that significant liquidity, credit or other problems spread among financial companies. We cannot predict whether any such recommendations will be made or their effect on our business, results of operations, cash flows or financial condition.

As a savings and loan holding company, we will become subject to the Volcker Rule provisions of Dodd-Frank prohibiting, subject to the rule s exceptions, proprietary trading and the sponsorship of, and investment in, funds (referred to in Dodd-Frank as hedge funds or private equity funds) that rely on certain exemptions from the Investment Company Act of 1940, as amended (collectively, covered funds). In January 2011, the Council provided recommendations on the implementation of the Volcker Rule, and the FRB and other agencies are to promulgate regulations thereunder within nine months thereafter. The rule becomes effective on the earlier of one year after adoption of regulations or July 21, 2012 (two years after Dodd-Frank s enactment), and activities and investments must be brought into compliance within two years thereafter, subject to exceptions. We presently believe that the permitted activities exceptions to the rule should be interpreted in a manner that does not require our insurance subsidiaries (including our foreign insurance subsidiaries) to materially alter their securities trading or investing practices, but there can be no assurance that the regulations promulgated will so provide. The

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Council recommendations expressly direct the FRB and other agencies to consider whether the permitted activities exception should apply to foreign insurance subsidiaries and separate account investments. Further, the Council stated that the agencies will need to consider a process to assess insurance company investment laws since the Volcker Rule s permitted activities for insurers are conditioned on the banking agencies, after consultation with the Council and state insurance regulators, not having jointly determined a state s laws insufficient to protect the insurer s safety and soundness or the financial stability of the U.S. If the Volcker Rule were interpreted to prohibit insurance company investments in covered funds, or to apply the aggregate limit of 3% of Tier 1 capital to our coinvestment in covered funds sponsored by our Prudential Real Estate Investors (PREI), Prudential Investment Management (PIM) or other operations, our insurance subsidiaries could be required to dispose of covered fund investments. Furthermore, our PREI and PIM investment management operations sponsor covered funds in which we coinvest (in both insurance and non-insurance subsidiaries) which are directly affected by the Volcker Rule prohibitions which, among other things, limit permanent investment by a sponsoring company in any one fund to no more than 3% of fund capital, limit covered fund marketing except to bona fide trust, fiduciary or investment advisory customers, prohibit covered transactions between a fund and the sponsoring company and prohibit the use of the sponsoring company s name in the fund s name. It is possible that regulations with respect to the foregoing provisions could require us to dispose of covered fund investments, significantly alter our business practices in these operations and/or diminish the attractiveness of our covered fund products to clients. If we were a Designated Financial Company but not a savings and loan holding company, the foregoing prohibitions would not apply but we could be subject, pursuant to future FRB rulemaking, to additional capital requirements for, and quantitative limits on, proprietary trading and sponsorship of, and investment in, covered funds. In addition, actions taken by other financial entities in response to the Volcker Rule could potentially negatively affect the market for, returns from or liquidity of our investments in covered funds affiliated with such other financial entities.

Dodd-Frank creates a new framework for regulation of the over-the-counter (OTC) derivatives markets which could impact various activities of Prudential Global Funding (PGF), Prudential Financial and our insurance subsidiaries, which use derivatives for various purposes (including hedging interest rate, foreign currency and equity market exposures). Dodd-Frank generally requires swaps, subject to a determination by the Commodity Futures Trading Commission (CFTC) or SEC as to which swaps are covered, with all counterparties except non-financial end users to be executed through a centralized exchange or regulated facility and to be cleared through a regulated clearinghouse. Swap dealers and major swap participants (MSPs) are subject to capital and margin (i.e., collateral) requirements that will be imposed by the applicable prudential regulator or the CFTC or SEC, as well as business conduct rules and reporting requirements. While we believe Prudential Financial, PGF and our insurance subsidiaries should not be considered dealers or MSPs subject to the capital and margin requirements, the final regulations adopted could provide otherwise, which could substantially increase the cost of hedging and the related operations. A determination by the Secretary of the Treasury not to exclude foreign currency swaps and forwards from the foregoing requirements also could have that result. PGF intermediates swaps between Prudential entities (other than PFI) and third parties, and it is possible that PGF s standardized intra-Company transactions might be required to be executed through an exchange, cleared centrally with posted margin, potentially defeating PGF s key function; if so, Prudential entities might directly enter into swaps with third parties, potentially increasing the economic costs of hedging. The SEC and CFTC are required to determine whether and how stable value contracts should be treated as swaps and, although we believe otherwise, various other products offered by our insurance subsidiaries might be treated as swaps; if regulated as swaps, we cannot predict how the rules would be applied to such products or the effect on their profitability or attractiveness to our clients. Finally, the new regulatory scheme imposed on all market participants may increase the costs of hedging generally and banking institutions (with which we enter into a substantial portion of our derivatives) will be required to conduct at least a portion of their OTC derivatives businesses outside their depositary institutions. The affiliates through which these institutions will conduct their OTC derivatives businesses might be less creditworthy than the depository institutions themselves, and netting of counterparty exposures with non-banks will not be allowed, potentially affecting the credit risk these counterparties pose to us and the degree to which we are able to enter into transactions with these counterparties. We cannot predict the effect of the foregoing on our hedging costs, our hedging strategy or implementation thereof or whether we will need or choose to increase and/or change the composition of the risks we do not hedge.

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Dodd-Frank establishes a Federal Insurance Office within the Department of the Treasury to be headed by a director appointed by the Secretary of the Treasury. While not having a general supervisory or regulatory authority over the business of insurance, the director of this office will perform various functions with respect to insurance (other than health insurance), including serving as a non-voting member of the Council and making recommendations to the Council regarding insurers (potentially including the Company) to be designated for stricter regulation. The director is also required to conduct a study on how to modernize and improve the system of insurance regulation in the United States, including by increased national uniformity through either a federal charter or effective action by the states.

Dodd-Frank authorizes the FRB to require a savings and loan holding company or a Designated Financial Company to place its financial activities in an intermediate holding company separate from non-financial activities (as defined for purposes of the Bank Holding Company Act) and imposes restrictions on transactions between the two businesses. While our non-financial activities are relatively minor, the imposition of such a requirement on us could be burdensome and costly to implement. Dodd-Frank directs the U.S. Government Accountability Office to study and report to Congressional committees within eighteen months of Dodd-Frank s enactment regarding the adequacy of the federal regulatory framework which permits savings and loan holding companies to engage in non-financial activities and the consequence of prohibiting such activities.

Title II of Dodd-Frank provides that a financial company may be subject to a special orderly liquidation process outside the federal bankruptcy code, administered by the FDIC as receiver, upon a determination (with the approval of the director of the Federal Insurance Office if as is true with respect to Prudential Financial the largest United States subsidiary is an insurer) that the company is in default or in danger of default and presents a systemic risk to U.S. financial stability. Were Prudential Financial subject to such a proceeding, our U.S. insurance subsidiaries would remain subject to rehabilitation and liquidation proceedings under state law, although the FDIC has discretion and authority to initiate resolution of an insurer under state law if its state insurance regulator has not filed the appropriate judicial action within 60 days of a systemic risk determination. However, our non-insurance U.S. subsidiaries engaged in financial activities would be subject to any special orderly liquidation process so commenced. We cannot predict how creditors of Prudential Financial or its insurance and non-insurance subsidiaries, including the holders of Prudential Financial debt, will evaluate this potential or whether it will impact our financing or hedging costs.

Dodd-Frank establishes the Bureau of Consumer Financial Protection (CFPB) as an independent agency within the FRB to regulate consumer financial products and services offered primarily for personal, family or household purposes, with rule-making and enforcement authority over unfair, deceptive or abusive practices. Insurance products and services are not within the CFPB s general jurisdiction, and broker-dealers and investment advisers are not subject to the CFPB s jurisdiction when acting in their registered capacity. Retirement service providers such as us could become subject to the CFPB s jurisdiction, but only if the Department of Labor and the Department of the Treasury agree. Otherwise, we believe we offer a very limited number of products subject to CFPB regulation and the impact of Dodd-Frank on our operations in this regard should not be material; however, it is possible that the regulations promulgated by the CFPB will assert jurisdiction more expansively than we anticipate.

Dodd-Frank includes various securities law reforms that may affect our business practices and the liabilities and/or exposures associated therewith, including:

In January 2011, the SEC staff issued a study that recommends that the SEC adopt a uniform federal fiduciary standard of conduct for registered broker-dealers and investment advisers that provide retail investors personalized investment advice about securities, consider harmonization of the regulation applicable to investment advisers and broker-dealers functions taking into account the best elements of each regime and conduct rulemakings or provide guidance to facilitate the implementation of a federal fiduciary standard of care. The SEC staff study acknowledges that Dodd-Frank provides that the offering of proprietary products would not be a per se violation of any new standard of care and that broker-dealers selling proprietary or a limited range of products could be permitted to make certain disclosures about their limited product offerings and obtain customer consents or acknowledgements.

The SEC and other regulators are required to promulgate regulations requiring the securitizer, and possibly the originator, of certain asset-backed securities to retain at least 5% of the credit risk of securities sold, which may apply to activities of our investment management segment if the regulations promulgated treat us as a securitizer or an originator.

Dodd-Frank imposes various assessments on financial companies, including: ex-post assessments to provide funds necessary to repay any borrowing and to cover the costs of any special resolution of a financial company conducted under Title II (although the FDIC is to take into account assessments otherwise imposed under state insurance guaranty funds); if we were to become a Designated Financial Company, assessments to fund a newly-created Office of Financial Research which, among other things, assists the Council; and assessments for the costs of our new regulation by the FRB. We are unable to estimate these costs at this time.

We cannot predict with any certainty whether these possible outcomes will occur or the effect they may have on the financial markets or on our business, results of operations, cash flows and financial condition.

International Regulatory Initiatives

In addition to the adoption of Dodd-Frank in the United States, lawmakers around the world are actively reviewing the causes of the financial crisis and exploring steps to avoid similar problems in the future. In many respects, this work is being led by the Financial Stability Board (FSB), consisting of representatives of national financial authorities of the G20 nations. The G20 and the FSB have issued a series of papers and recommendations intended to produce significant changes in how financial companies, particularly companies that are members of large and complex financial groups, should be regulated. These proposals address such issues as financial group supervision, capital and solvency standards, systemic economic risk, corporate governance including executive compensation, and a host of related issues associated with responses to the financial crisis. The FSB, for example, has proposed to designate certain companies as systemically significant, similar to the approach the Council may take in connection with Designated Financial Companies. The lawmakers and regulatory authorities in a number of jurisdictions in which we do business have already begun introducing legislative and regulatory changes consistent with G20 and FSB recommendations, including proposals governing consolidated regulation of insurance holdings companies by the Financial Services Agency (FSA) in Japan, proposals governing executive compensation by the financial regulators in Germany (BaFIN) and the United Kingdom (FSA), and proposals to permit U.S.-style class action litigation in the United Kingdom with respect to financial services claims. In addition, the prudential regulation of insurance and reinsurance companies across the European Economic Area (EEA) is due for significant change under the Solvency II Directive, which was adopted on November 25, 2009 and is expected to come into force in January 2013. This new regime will replace the Solvency I regime, will effect a full revision of the insurance industry s solvency framework and prudential regime (in particular minimum capital and solvency requirements, governance requirements, risk management and public reporting standards) and will impose, *inter alia*, group level supervision mechanisms. In particular, the Solvency II regime may have significant implications for non-European insurance groups, like ourselves, that have established insurance undertakings (whether branches or subsidiaries) within the EEA. Subsidiaries and branches of non-European insurance groups will have to comply with local regulations reflecting heightened prudential standards. At the group level, if group supervision in the jurisdiction of the ultimate parent of a non-European insurance group (*i.e.*, the U.S. in the case of Prudential Financial) is recognized as equivalent to the Solvency II regime, EEA member states are required by the Directive to rely on the equivalent group supervision exercised by the U.S. supervisory authorities; however, if group supervision in the U.S. is not regarded as equivalent, European supervisors would have the power to require the establishment of a European holding company to create a sub-group consisting of all undertakings (branches and subsidiaries) domiciled in Europe, which would then be subject to supervision by a lead European supervisor. Whether the U.S. supervisor will be deemed equivalent at implementation or eligible for inclusion in a transitional regime, if any, is still under consideration and remains uncertain. The impact of the implementation of Solvency II on Prudential cannot be determined at this time. There can be no assurance that Solvency II will not, at a minimum, result in increased supervisory, capital and disclosure burdens on Prudential s EEA operations.

These requirements could impact the manner in which we deploy our capital, structure and manage our businesses, and otherwise operate both within and outside the U.S. The possibility of inconsistent and conflicting regulation of the Prudential group of companies also exists as law makers and regulators in multiple jurisdictions simultaneously pursue these initiatives.

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Other U.S. Federal Regulation

U.S. Tax Legislation

Current U.S. federal income tax laws generally permit certain holders to defer taxation on the build-up of value of annuities and life insurance products until payments are actually made to the policyholder or other beneficiary and to exclude from taxation the death benefit paid under a life insurance contract. Congress from time to time considers legislation that could make our products less attractive to consumers, including legislation that would reduce or eliminate the benefit of this deferral on some annuities and insurance products, as well as other types of changes that could reduce or eliminate the attractiveness of annuities and life insurance products to consumers such as changes to estate tax. The estate tax was completely eliminated for 2010, but modified carryover basis rules applied for property acquired from decedent s dying in that year. The estate tax has been reinstated through 2012 with a $5 million individual exemption, a 35% maximum rate and step-up in basis rules for property acquired from a decedent. Estates of decedents who died in 2010 can choose between the rules that were in effect in 2010 or the new rules. It is unclear what Congress will do with respect to the estate tax after 2012.

Legislative or regulatory changes could also impact the amount of taxes that we pay, thereby affecting our consolidated net income. For example, the U.S. Treasury Department and the Internal Revenue Service intend to address through regulations the methodology to be followed in determining the dividends received deduction, or DRD, related to variable life insurance and annuity contracts. The DRD reduces the amount of dividend income subject to U.S. tax and is a significant component of the difference between our actual tax expense and expected tax amount determined using the federal statutory tax rate of 35%. On February 14, 2011, the Obama Administration released the General Explanations of the Administration s Revenue Proposals. Although the Administration has not released proposed statutory language, one proposal would change the method used to determine the amount of the DRD. A change in the DRD, including the possible retroactive or prospective elimination of this deduction through regulation or legislation, could increase actual tax expense and reduce our consolidated net income.

There is generally uncertainty regarding U.S. taxes both for individuals and corporations in light of the fact that many tax provisions recently enacted or extended will sunset by the end of 2012. In addition, the recommendations made by the President s bipartisan National Commission on Fiscal Responsibility and Reform and other deficit reduction panels suggest the need to reform the U.S. Tax Code. In addition, Congress plans to hold a number of hearings during 2011 devoted to tax reform. It is unclear whether or when Congress may take up overall tax reform and what would be the impact of reform on the Company and its products.

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

Proposed Financial Crisis Responsibility Fee

On February 14, 2011, the Obama Administration released the General Explanations of the Administration s Revenue Proposals, which includes a proposal that would impose a Financial Crisis Responsibility Fee, or FCRF, on certain financial institutions with over $50 billion in consolidated assets. As proposed, the FCRF would apply to insurance companies or other companies that own insured depositories as of January 14, 2010, which would include the Company. The FCRF would be imposed at a rate of 7.5 basis points on the covered liabilities of companies subject to the FCRF. Covered liabilities are generally the consolidated risk-weighted assets of a company with a few exceptions. Certain policy-related liabilities of insurance companies would also be excluded. The FCRF would be imposed effective as of January 1, 2013. The amount of the FCRF that would be imposed upon the Company under this proposal, in the event it is enacted into law, is unclear, but could be substantial.

ERISA

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

USA Patriot Act

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

Holding Company Regulation

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

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

Currently, there are several proposals to amend state insurance holding company laws to increase the scope of regulation of insurance holding companies (such as Prudential Financial). The International Association of Insurance Supervisors (the IAIS) and the National Association of Insurance Commissioners (the NAIC) have promulgated model laws for adoption internationally and in the United States that would provide for group wide supervision of Prudential Financial as an insurance holding company in addition to the current regulation of Prudential Financial s insurance subsidiaries. While the timing of their adoption and content will vary by jurisdiction, we have identified the following areas of focus in these model laws: (1) uniform standards for insurer corporate governance; (2) group-wide supervision of insurance holding companies; (3) adjustments to risk-based capital calculations to account for group-wide risks; and (4) additional regulatory and disclosure requirements for insurance holding companies. At this time, we cannot predict with any degree of certainty what additional capital requirements, compliance costs or other burdens these requirements may impose on Prudential Financial.

In addition, many state insurance laws require prior notification of state insurance departments of a change in control of a non-domiciliary insurance company doing business in that state. While these pre-notification

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statutes do not authorize the state insurance departments to disapprove the change in control, they authorize regulatory action in the affected state if particular conditions exist such as undue market concentration. Any future transactions that would constitute a change in control of Prudential Financial may require prior notification in those states that have adopted pre-acquisition notification laws.

As a result of its ownership of Prudential Bank & Trust, FSB, Prudential Financial and Prudential IBH Holdco, Inc. are considered to be savings and loan holding companies and are subject to annual examination, currently by the Office of Thrift Supervision of the U.S. Department of Treasury (OTS). As discussed above, under Dodd-Frank, we will, among other things, become subject to the examination, enforcement and supervisory authority of the FRB following the transfer to the FRB of the existing authority of the OTS. Federal and state banking laws generally provide that no person may acquire control of Prudential Financial, and gain indirect control of either Prudential Bank & Trust, FSB or Prudential Trust Company, without prior regulatory approval. Generally, beneficial ownership of 10% or more of the voting securities of Prudential Financial would be presumed to constitute control. We provide trust services through Prudential Trust Company, a state-chartered trust company incorporated under the laws of the Commonwealth of Pennsylvania, and offer both trust directed services and investment products through Prudential Bank & Trust, FSB. These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of Prudential Financial, including through transactions, and in particular unsolicited transactions, that some shareholders of Prudential Financial might consider desirable.

Insurance Operations

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

State Insurance Regulation

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

- licensing to transact business;
- licensing agents;
- admittance of assets to statutory surplus;
- regulating premium rates for certain insurance products;

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

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

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

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

Financial Regulation

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

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

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

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

Solvency Modernization Initiative. State insurance regulators have focused attention on U.S. insurance solvency regulation pursuant to the NAIC s Solvency Modernization Initiative. The Solvency Modernization Initiative focuses on the entire U.S. financial regulatory system and all aspects of financial regulation affecting

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insurance companies. Though broad in scope, the NAIC has stated that the Solvency Modernization Initiative will focus on: (1) capital requirements; (2) corporate governance and risk management; (3) group supervision; (4) statutory accounting and financial reporting; and (5) reinsurance.

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

Market Conduct Regulation

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

Insurance Guaranty Association Assessments

Each state has insurance guaranty association laws under which insurers doing business in the state are members and may be assessed by state insurance guaranty associations for certain obligations of insolvent insurance companies to policyholders and claimants. Typically, states assess each member insurer in an amount related to the member insurer s proportionate share of the business written by all member insurers in the state. For the years ended December 31, 2010, 2009 and 2008, we paid approximately $0.8 million, $4.5 million and $1.7 million, respectively, in assessments pursuant to state insurance guaranty association laws. In addition, in 2009, we received $9.3 million of refunds for assessments paid in prior years. While we cannot predict the amount and timing of any future assessments on our U.S. insurance companies under these laws, we have established reserves that we believe are adequate for future assessments relating to insurance companies that are currently subject to insolvency proceedings.

Federal and State Securities Regulation Affecting Insurance Operations

Our variable life insurance products, as well as our variable annuity and mutual fund products, generally are securities within the meaning of federal securities laws, registered under the federal securities laws and subject to regulation by the SEC and FINRA. Federal and some state securities regulation similar to that discussed below under Investment Products and Asset Management Operations and Securities Operations affect investment advice, sales and related activities with respect to these products.

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

Investment and Retirement Products and Asset Management Operations

Our investment products and services are subject to federal and state securities, fiduciary, including the Employee Retirement Income Security Act, or ERISA, and other laws and regulations. The SEC, FINRA, CFTC, state securities commissions, state banking and insurance departments and the United States Department of Labor are the principal U.S. regulators that regulate our asset management operations. For a discussion of Dodd-Frank s impact on our investment products and asset management operations, see Dodd-Frank Wall Street Reform and Consumer Protection Act above.

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Some of the separate account, mutual fund and other pooled investment products offered by our businesses, in addition to being registered under the Securities Act, are registered as investment companies under the Investment Company Act of 1940, as amended, and the shares of certain of these entities are qualified for sale in some states and the District of Columbia. Separate account investment products are also subject to state insurance regulation as described above. We also have several subsidiaries that are registered as broker-dealers under the Securities Exchange Act of 1934, as amended, or the Exchange Act, and are subject to federal and state regulation, including but not limited to the SEC s Uniform Net Capital Rule, described under Securities Operations below. In addition, we have several subsidiaries that are investment advisors registered under the Investment Advisers Act of 1940, as amended. Our Prudential Agents and other employees, insofar as they sell products that are securities, are subject to the Exchange Act and to examination requirements and regulation by the SEC, FINRA and state securities commissioners. Regulation and examination requirements also extend to various Prudential entities that employ or control those individuals. The federal securities laws could also require re-approval by customers of our investment advisory contracts to manage mutual funds, including mutual funds included in annuity products, upon a change in control.

Congress from time to time considers pension reform legislation that could decrease or increase the attractiveness of certain of our retirement products and services to retirement plan sponsors and administrators, or have an unfavorable or favorable effect on our ability to earn revenues from these products and services. In this regard, the Pension Protection Act of 2006 (PPA) made significant changes in employer pension funding obligations associated with defined benefit pension plans which are likely to increase sponsors costs of maintaining these plans. Over time, these changes could hinder our sales of defined benefit pension products and services and cause sponsors to discontinue existing plans for which we provide asset management, administrative, or other services, but could increase the attractiveness of certain products we offer in connection with terminating pension plans. The Worker, Retiree and Employer Recovery Act (the Employer Recovery Act) was passed in December 2008 in response to the financial crisis that began in the last half of 2007. The Employer Recovery Act modifies the method of calculating a plan s assets for purposes of satisfying the minimum funding rules set forth in the PPA, and ameliorates the financial impact of a plan not meeting its current funding target. As a result, the Employer Recovery Act may have the effect of delaying some of the positive and negative impacts of the PPA on our business.

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

Securities Operations

Our securities operations, principally conducted by a number of SEC-registered broker-dealers are subject to federal and state securities, commodities and related laws. The SEC, the Commodity Futures Trading Commission, or the CFTC, state securities authorities, FINRA, the Municipal Securities Rulemaking Board, and similar authorities are the principal regulators of our securities operations. For a discussion of Dodd-Frank s impact on our securities operations, see Dodd-Frank Wall Street Reform and Consumer Protection Act above.

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

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

The commodity futures and commodity options industry in the U.S. is subject to regulation under the Commodity Exchange Act, as amended. The CFTC is the federal agency charged with the administration of the

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

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

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

Privacy Regulation

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

Environmental Considerations

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

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

Other

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

We are subject to the laws and regulations of states and other jurisdictions concerning the identification, reporting and escheatment of unclaimed or abandoned funds, and we are subject to audit and examination for compliance with these requirements. We are currently being examined by a third party auditor on behalf of 30 U.S. jurisdictions for compliance with the unclaimed property laws of these jurisdictions.

Regulation of our International Businesses

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

In addition, our international operations face political, legal, operational and other risks that we do not face in the U.S., including the risk of discriminatory regulation, labor issues in connection with workers associations and trade unions, nationalization or expropriation of assets, dividend limitations, price controls and currency exchange controls or other restrictions that prevent us from transferring funds from these operations out of the countries in which they operate or converting local currencies we hold into U.S. dollars or other currencies. Some jurisdictions in which we operate joint ventures restrict our maximum percentage of ownership, which exposes us to joint venture partner risks and limits our array of potential remedies.

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

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

The Financial Services Agency, the insurance regulator in Japan, has implemented revisions to the solvency margin requirements that will revise risk charges for certain assets and change the manner in which an insurance company s core capital is calculated. Under the proposals, certain financial assets will now be excluded from the core capital calculation and certain investment risk factors, including derivatives and foreign exchange, will be revised. These changes are effective for the fiscal year ending March 31, 2012; however, it is anticipated that companies may begin to publicly disclose prior to that date both their old and new solvency margin calculations. While we believe that the solvency margins of our Japanese insurance subsidiaries would continue to satisfy regulatory requirements and our internal targets, it is possible that a reduction in the reported ratios arising from changes in the calculation requirements could affect customer perception of our financial strength. The capital requirements in Korea and Taiwan are also undergoing changes. We anticipate further changes in solvency regulation from jurisdiction to jurisdiction based on regulatory developments in the U.S., the European Union, and recommendations by an international standard setting body for the insurance industry, as well as regulatory requirements for those companies deemed to be systemically important financial institutions, or SIFIs, in the U.S. or abroad. It is unclear what criteria will be used to determine which companies will be deemed to be SIFIs or whether we will be so treated.

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

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

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

Certain of our international insurance operations, including those in Japan, may be subject to assessments, generally based on their proportionate share of business written in the relevant jurisdiction, for certain obligations of insolvent insurance companies to policyholders and claimants. As we cannot predict the timing of future assessments, they may materially affect the results of operations of our international insurance operations in

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particular quarterly or annual periods. In addition, in some jurisdictions, some of our insurance products are considered securities under local law. In those instances, we may also be subject to local securities regulations and oversight by local securities regulators.

Under the Japanese insurance guaranty law, substantially similar to such laws in the U.S., all licensed life insurers in Japan are required to be members and are assessed, on a pre-funded basis, by the Japan Policyholders Protection Corporation, or PPC. These assessments generate a collective fund which is used to satisfy certain obligations of insolvent insurance companies to policyholders and claimants. The PPC assesses each member in an amount related to its proportionate share of new business written by all member insurers. For the years ended December 31, 2010, 2009 and 2008, we paid approximately $16 million, $15 million and $15 million, respectively, in assessments pursuant to Japanese insurance guaranty association laws.

Our international businesses are subject to the tax laws and regulations of the countries in which they are organized and in which they operate. Foreign governments from time to time consider legislation that could impact the amount of taxes that we pay or impact the sales of our products. In 2008, the National Tax Authority in Japan, or NTA, released a revised tax circular that reduced, but did not eliminate, the corporate tax deductibility of insurance premiums paid with respect to Increasing Term insurance products sold after February 28, 2008. In 2008, Korea enacted a corporate income tax rate reduction from 27.5% to 24.2% for fiscal years beginning on or after January 1, 2009 and to 22% for fiscal years beginning on or after January 1, 2012. In 2009, Taiwan enacted a corporate income tax rate decrease from 25% to 20% effective January 1, 2010. Also in 2009, Mexico enacted a corporate income tax rate increase effective in 2010. In 2010, Taiwan further reduced the corporate tax rate from 20% to 17% for tax years beginning in or after 2010. In December 2010, the Japanese Prime Minister announced a plan to reduce the Japanese corporate tax rate from 36.2% to 31.2% and change the tax loss carryforward rules from 7 to 9 years, but tax losses may then only offset 80% of a company s taxable income. It is uncertain if this proposal will be enacted, but if it is it would likely be enacted in March 2011 and become effective for the next Japanese tax year, which generally begins on April 1, 2011.

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

As discussed under Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations for Financial Services Businesses by Segment International Insurance and Investments Division International Insurance, on February 1, 2011, we completed the acquisition from AIG of the Star and Edison Businesses for a total purchase price of approximately $4.8 billion, comprised of approximately $4.2 billion in cash and $0.6 billion in the assumption of third-party debt. All acquired entities are Japanese corporations and their businesses are in Japan. The acquisition significantly expands the scope of our operations subject to regulation in Japan.

Employees

As of December 31, 2010, we had 41,044 employees and sales associates, including 21,008 located outside of the U.S. We believe our relations with our employees and sales associates are satisfactory.

Available Information

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

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

ITEM 1A. RISK FACTORS

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

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

Some of our businesses and our results of operations were materially adversely affected by adverse conditions in the global financial markets and adverse economic conditions generally that began in the second half of 2007. While conditions in the global financial markets have improved, with favorable results for many of our businesses, our businesses, results of operations and financial condition may be adversely affected, possibly materially, if these conditions recur.

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

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

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

- A change in market conditions, including prolonged periods of high inflation, could cause a change in consumer sentiment adversely affecting sales and persistency of our long-term savings and protection products. A prolonged period of low interest rates could cause persistency of these products to vary from that anticipated and adversely affect profitability (as further described below). Similarly, changing economic conditions and unfavorable public perception of financial institutions can influence customer behavior, including but not limited to increasing claims or surrenders in certain product lines.

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

A market decline could further result in guaranteed minimum benefits contained in many of our variable annuity products being higher than current account values or our pricing assumptions would support, requiring us to materially increase reserves for such products, and may cause customers to retain contracts in force in order to benefit from the guarantees, thereby increasing their cost to us. Any increased cost may or may not be more than offset by the favorable impact of greater persistency from prolonged fee streams. Our valuation of the liabilities for the minimum benefits contained in many of our variable annuity products requires us to consider the market perception of our risk of non-performance, and a decrease in our own credit spreads resulting from ratings upgrades or other events or market conditions could cause the recorded value of these liabilities to increase, which in turn could adversely affect our results of operations and financial position.

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

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

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

Opportunities for investment of available funds at appropriate returns may be limited, including due to the current low interest rate environment, a diminished securitization market or other factors, with a possible negative impact on our overall results. The consequences of holding cash for long periods of time may result in increased purchase of derivatives for duration management purposes. The increased use of derivatives may increase the volatility of our U.S. GAAP results and our statutory capital.

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

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

Adverse capital market conditions have in the past, and could in the future, significantly affect our ability to meet liquidity needs, our access to capital and our cost of capital, including capital that may be required by our subsidiaries. Under such conditions, we may seek additional debt or equity capital but be unable to obtain such.

Adverse capital market conditions have affected and may affect in the future the availability and cost of borrowed funds and could impact our ability to refinance existing borrowings, thereby ultimately impacting our profitability and ability to support or grow our businesses. We need liquidity to pay our operating expenses, interest on our debt and dividends on our capital stock and replace certain maturing debt obligations. Without sufficient liquidity, we could be forced to curtail certain of our operations, and our business could suffer. The principal sources of our liquidity are insurance premiums, annuity considerations, deposit funds and cash flow

from our investment portfolio and assets, consisting mainly of cash or assets that are readily convertible into cash. Sources of liquidity in normal markets also include a variety of short- and long-term instruments, including securities lending and repurchase agreements, commercial paper, medium and long-term debt and capital securities.

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

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

The Risk Based Capital, or RBC, ratio is a primary measure by which we and state insurance regulators evaluate the capital adequacy of Prudential Insurance and our other domestic life insurance subsidiaries, which includes businesses in both the Financial Services Businesses and the Closed Block Business. We manage Prudential Insurance and our other domestic life insurance subsidiaries RBC ratios to a level consistent with their ratings objectives; however, rating agencies take into account a variety of factors in assigning ratings to our insurance subsidiaries in addition to RBC levels. RBC is determined by statutory rules that consider risks related to the type and quality of the invested assets, insurance-related risks associated with Prudential Insurance s products, interest rate risks and general business risks. The RBC ratio calculations are intended to assist insurance regulators in measuring the adequacy of Prudential Insurance s statutory capitalization. Adverse financial performance in the Closed Block Business in Prudential Insurance, including adverse investment performance, will adversely affect Prudential Insurance s RBC ratios, although dividends to Closed Block policyholders may be subsequently adjusted to reflect such performance. The failure of Prudential Insurance and our other domestic insurance subsidiaries to meet applicable RBC requirements or minimum statutory capital and surplus requirements could subject those subsidiaries to further examination or corrective action by state insurance regulators. The failure to maintain the RBC ratios of Prudential Insurance and our other domestic insurance subsidiaries at desired levels could also adversely impact our competitive position. In addition, RBC ratios may impact our credit and claims paying ratings. Our international insurance companies are subject to conceptually similar measures of capital adequacy, including solvency margins for our Japanese insurance companies, and we face similar risks as those described for our domestic companies in the event that we are unable to maintain these measures at adequate levels. U.S. and international insurance regulators may change capital requirements, as described herein.

Disruptions in the capital markets could adversely affect Prudential Financial s and its subsidiaries ability to access sources of liquidity, as well as threaten to reduce our capital below a level that is consistent with our existing ratings objectives. Therefore, we may need to take actions, which may include but are not limited to: (1) further access external sources of capital, including the debt or equity markets; (2) reduce or eliminate future shareholder dividends on our Common Stock; (3) undertake additional capital management activities, including reinsurance transactions; (4) limit or curtail sales of certain products and/or restructure existing products; (5) undertake further asset sales or internal asset transfers; (6) seek temporary or permanent changes to regulatory rules; and (7) maintain greater levels of cash balances or for longer periods thereby reducing investment returns. Certain of these actions may require regulatory approval and/or agreement of counterparties which are outside of our control or have economic costs associated with them.

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

An inability to access our credit facilities could have a material adverse effect on our financial condition and results of operations.

We maintain committed unsecured revolving credit facilities that, as of December 31, 2010, totaled $4.108 billion. We rely on these credit facilities as a potential source of liquidity which could be critical in enabling us to meet our obligations as they come due, particularly during periods when alternative sources of liquidity are limited. Our ability to borrow under these facilities is conditioned on our satisfaction of covenants and other requirements contained in the facilities, such as Prudential Insurance s maintenance of a prescribed minimum level of total adjusted capital based on statutory accounting principles under New Jersey law and Prudential Financial s maintenance of a prescribed minimum level of consolidated net worth calculated in accordance with the applicable credit agreement. Our failure to satisfy these and other requirements contained in the credit facilities would restrict our access to the facilities when needed and, consequently, could have a material adverse effect on our financial condition and results of operations.

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

Financial strength ratings, which are sometimes referred to as claims-paying ratings, represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy, and are important factors affecting public confidence in an insurer and its competitive position in marketing products, including Prudential Insurance and our other insurance company subsidiaries. Credit ratings represent the opinions of rating agencies regarding an entity s ability to repay its indebtedness, and Prudential Financial s credit ratings are important to our ability to raise capital through the issuance of debt and to the cost of such financing. A downgrade in our financial strength or credit ratings could potentially, among other things, limit our ability to market products, reduce our competitiveness, increase the number or value of policy surrenders and withdrawals, increase our borrowing costs and potentially make it more difficult to borrow funds, adversely affect the availability of financial guarantees, such as letters of credit, cause additional collateral requirements or other required payments under certain agreements, allow counterparties to terminate derivative agreements, and/or hurt our relationships with creditors, distributors, reinsurers or trading counterparties thereby potentially negatively affecting our profitability, liquidity and/or capital. In addition, we consider our own risk of non-performance in determining the fair value of our liabilities, including insurance liabilities that are classified as embedded derivatives under U.S. GAAP. Therefore, changes in our credit or financial strength ratings may affect the fair value of our liabilities. For a description of material rating actions that have occurred from the beginning of 2010 through the date of this filing, see Management s Discussion and Analysis of Financial Condition and Results of Operations Ratings.

Prudential Insurance has been a member of the Federal Home Loan Bank of New York, or FHLBNY, since June 2008. Membership allows Prudential Insurance access to FHLBNY s financial services, including the ability to obtain collateralized loans, and to issue collateralized funding agreements that can be used as an alternative source of liquidity. Under FHLBNY guidelines, if Prudential Insurance s financial strength ratings decline below A/A2/A Stable by S&P, Moody s and Fitch, respectively, and the FHLBNY does not receive written assurances from the New Jersey Department of Banking and Insurance regarding Prudential Insurance s solvency, new borrowings from the FHLBNY would be limited to a term of 90 days or less. Although Prudential Insurance s ratings are currently at or above the required minimum levels, there can be no assurance that the ratings will remain at these levels in the future.

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

In addition, agreements in connection with capital management activities for our universal life insurance products would require us to post cash collateral based on tests that consider the level of 10-year credit default swap spreads on Prudential Financial s senior debt. As of December 31, 2010, no collateral amounts were required to be paid.

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

A downgrade in the credit or financial strength ratings of Prudential Financial or its rated subsidiaries could result in additional collateral requirements or other required payments under certain agreements, including derivative agreements, which are eligible to be satisfied in cash or by posting securities held by the subsidiaries subject to the agreements. A ratings downgrade of three ratings levels from the ratings levels at December 31, 2010 (relating to financial strength ratings in certain cases and credit ratings in other cases) would result in estimated collateral posting requirements or payments under such agreements of approximately $198 million as of December 31, 2010. In addition, a ratings downgrade by A.M. Best to A- for our domestic life insurance companies would require Prudential Insurance to post a letter of credit in the amount of approximately $1.7 billion, based on the level of statutory reserves related to the variable annuity business acquired from Allstate, that we estimate would result in annual cash outflows of approximately $14 million, or collateral posting in the form of cash or securities to be held in a trust.

Interest rate fluctuations or prolonged periods of low interest rates could adversely affect our businesses and profitability and require us to increase reserves and statutory capital.

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

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

Changes in interest rates can also result in potential losses in our investment activities in which we borrow funds and purchase investments to earn additional spread income on the borrowed funds.

When interest rates rise, policy loans and surrenders and withdrawals of life insurance policies and annuity contracts may increase as policyholders seek to buy products with perceived higher returns, requiring us to sell investment assets potentially resulting in realized investment losses, or requiring us to accelerate the amortization of DAC, DSI or VOBA (each defined below). In addition, increasing interest rates could cause capital strain for Japanese statutory reporting because the carrying value of bonds classified as available for sale would decline while the value of liabilities would generally remain unchanged.

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

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

Changes in interest rates could increase our costs of financing.

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

For certain of our products, a delay between the time we make changes in interest rate and other assumptions used for product pricing and the time we are able to reflect these assumptions in products available for sale could negatively impact the long-term profitability of products sold during the intervening period.

Recent periods have been characterized by low interest rates. A prolonged period during which interest rates remain at levels lower than those anticipated may result in greater costs associated with certain of our product features which guarantee death benefits or income streams for stated periods or for life; higher costs for derivative instruments used to hedge certain of our product risks; or shortfalls in investment income on assets supporting policy obligations, each of which may require us to record charges to increase reserves. In addition to compressing spreads and reducing net investment income, such an environment may cause policies to remain in force for longer periods than we anticipated in our pricing, potentially resulting in greater claims costs than we expected and resulting in lower overall returns on business in force. In addition, certain statutory capital requirements are based on formulas or models that consider interest rates, and a prolonged period of low interest rates may increase the statutory capital we are required to hold as well as the amount of assets we must maintain to support statutory reserves.

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

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

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

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

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

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

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

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

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

Guarantees within certain of our products that protect policyholders may decrease our earnings or increase the volatility of our results of operations or financial position under U.S. GAAP if our hedging or risk management strategies prove ineffective or insufficient.

Certain of our products, including especially our variable annuity products, include guarantees of income streams for stated periods or for life. Downturns in equity markets, increased equity volatility, or (as discussed above) reduced interest rates could result in an increase in the valuation of liabilities associated with such products, resulting in increases in reserves and reductions in net income. We use a variety of hedging and risk management strategies, including product features, to mitigate these risks in part. These strategies may, however, not be fully effective.

We may also choose not to fully hedge these risks. Hedging instruments may not effectively offset the costs of guarantees or may otherwise be insufficient in relation to our obligations. Hedging instruments also may not change in value correspondingly with associated liabilities due to equity market or interest rate conditions or other reasons. We sometimes choose to hedge these risks on a basis that does not correspond to their anticipated or actual impact upon our results of operations or financial position under U.S. GAAP. For example, as discussed in Management s Discussion and Analysis of Financial Condition and

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Results of Operations Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities, during the third quarter of 2010 we have begun to hedge certain risks associated with our variable annuity products on a basis that does not fully correspond to the associated U.S. GAAP liability. Changes from period to period in the valuation of these policy benefits, and in the amount of our obligations effectively hedged, will result in volatility in our results of operations and financial position under U.S. GAAP. Estimates and assumptions we make in connection with hedging activities may fail to reflect or correspond to our actual long-term exposure in respect of our guarantees. Further, the risk of increases in the costs of our guarantees not covered by our hedging and other capital and risk management strategies may become more significant due to changes in policyholder behavior driven by market conditions or other factors. The above factors, individually or collectively, may have a material adverse effect on our results of operations, financial condition or liquidity.

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

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

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

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

For certain of our products, market performance and interest rates (as well as the regulatory environment, as discussed further below) impact the level of statutory reserves and statutory capital we are required to hold, and may have an adverse effect on returns on capital associated with these products. For example, equity market

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declines in the fourth quarter of 2008 caused a significant increase in the level of statutory reserves and statutory capital we were required to hold in relation to our Individual Annuities business. We finance uneconomic reserves associated with our Individual Life business. Marketplace capacity for reserve funding structures may be limited as a result of market conditions generally. Our ability to efficiently manage capital and economic reserve levels may be impacted, thereby impacting profitability and return on capital.

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

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

Goodwill represents the excess of the amounts we paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. Goodwill is assessed annually for potential impairment, or more frequently if conditions warrant, by comparing the carrying value (equity attributed to a business to support its risk) of a business to its estimated fair value at that date. As of December 31, 2010, we had a goodwill balance of $707 million, including $444 million related to our Retirement reporting unit, $239 million related to our Asset Management reporting unit and $24 million related to our International Insurance reporting unit. Market declines or other events impacting the fair value of these businesses, or increases in the level of equity required to support these businesses, could result in goodwill impairments, resulting in a charge to income.

As of December 31, 2010, we had operating equity method investments within our International Investments business, of $318 million. Declines in the fair value of these investments may require that we review the remaining carrying value of these investments for potential impairment, and such review could result in impairments and charges to income.

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

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

We determine our pension and other postretirement benefit plan costs based on assumed discount rates, expected rates of return on plan assets and expected increases in compensation levels and trends in health care costs. Changes in these assumptions, including from the impact of a sustained low interest rate environment, may result in increased expenses and reduce our profitability.

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

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

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

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

We may not be able to mitigate the reserve strain associated with Regulation XXX and Guideline AXXX, potentially resulting in a negative impact on our capital position or in a need to increase prices and/or reduce sales of term or universal life products.

The states of domicile of our domestic insurance subsidiaries have in place a regulation entitled Valuation of Life Insurance Policies, commonly known as Regulation XXX, and a supporting Guideline entitled The Application of the Valuation of Life Insurance Policies, commonly known as Guideline AXXX. The Regulation and supporting Guideline require insurers to establish statutory reserves for term and universal life insurance policies with long-term premium guarantees that are consistent with the statutory reserves required for other individual life insurance policies with similar guarantees. Many market participants believe that this level of reserves is excessive, and we have implemented reinsurance and capital management actions to mitigate the impact of Regulation XXX and Guideline AXXX on our term and universal life insurance business. As we continue to underwrite term and universal life business, we expect to have borrowing needs to finance statutory reserves required under Regulation XXX and Guideline AXXX. Based on current sales expectations, we believe our 2011 reserve growth could be up to $600 million. We are evaluating both internal and external solutions to fund this growth. If we are unsuccessful in executing these solutions as a result of market conditions or otherwise, this could require us to increase prices and or/reduce our sales of term or universal life products and/or have a negative impact on our capital position.

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

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

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

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

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

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

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

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

In each of our businesses we face intense competition from domestic and foreign insurance companies, asset managers and diversified financial institutions, both for the ultimate customers for our products and, in many businesses, for distribution through non-affiliated distribution channels. We compete based on a number of factors including brand recognition, reputation, quality of service, quality of investment advice, investment performance of our products, product features, scope of distribution and distribution arrangements, price, perceived financial strength and claims-paying and credit ratings. A decline in our competitive position as to one or more of these factors could adversely affect our profitability and assets under management. Many of our competitors are large and well-established and some have greater market share or breadth of distribution, offer a broader range of products, services or features, assume a greater level of risk, have lower profitability expectations or have higher claims-paying or credit ratings than we do. The proliferation and growth of non-affiliated distribution channels puts pressure on our captive sales channels to increase their productivity and reduce their costs in order to remain competitive, and we run the risk that the marketplace will make a more significant or rapid shift to non-affiliated or direct distribution alternatives than we anticipate or are able to achieve ourselves, potentially adversely affecting our market share and results of operations. In certain countries in which we operate internationally, we face competition from government owned entities that benefit from pricing or other competitive advantages. The competitive landscape in which we operate may be further affected by the government sponsored programs in the U.S. and similar governmental actions outside of the U.S. in response to the dislocations in financial markets. Competitors that receive governmental financing or other assistance or subsidies, including governmental guarantees of their obligations, or that are not subject to the same regulatory constraints, may have or obtain pricing or other competitive advantages.

Competition for personnel in all of our businesses is intense, including for executive officers and management personnel, Prudential Agents, Life Planners, Life Advisors and other sales personnel, and our investment managers. We devote significant efforts to talent management and development and are subject to the

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risk that executive, management and other personnel will be hired or recruited by competitors. Competition for desirable non-affiliated distribution channels is also intense. The loss of key personnel or non-affiliated distribution channels could have an adverse effect on our business and profitability.

We may experience difficulty in marketing and distributing products through our current and future distribution channels.

Although we distribute our products through a wide variety of distribution channels, we do maintain relationships with certain key distributors. For example, a significant amount of our sales in Japan through banks is derived through a single Japanese mega-bank and a significant portion of our sales in Japan through Life Advisors is derived through a single association relationship. We recently initiated a distribution relationship with a second large Japanese bank and will continue to explore other opportunities to expand our distribution capabilities through the bank channel, as well as other complementary distribution channels. We periodically negotiate the terms of these relationships, and there can be no assurance that such terms will remain acceptable to us or such third parties. An interruption in certain key relationships could materially affect our ability to market our products and could have a material adverse effect on our business, operating results and financial condition. Distributors may elect to reduce or terminate their distribution relationships with us, including for such reasons as adverse developments in our business, adverse rating agency actions or concerns about market-related risks. We are also at risk that key distribution partners may merge, change their business models in ways that affect how our products are sold, or terminate their distribution contracts with us. An increase in bank and broker-dealer consolidation activity could increase competition for access to distributors, result in greater distribution expenses and impair our ability to market products through these channels. Consolidation of distributors and/or other industry changes may also increase the likelihood that distributors will try to renegotiate the terms of any existing selling agreements to terms less favorable to us.

When our products are distributed through unaffiliated firms, we may not be able to monitor or control the manner of their distribution despite our training and compliance programs. If our products are distributed by such firms in an inappropriate manner, or to customers for whom they are unsuitable, we may suffer reputational and other harms to our business.

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

Our businesses are subject to comprehensive regulation and supervision. The purpose of this regulation is primarily to protect our customers and not necessarily our shareholders. Many of the laws and regulations to which we are subject, including those to which our international businesses are subject, are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations. The financial market dislocations we have experienced have produced, and are expected to continue to produce, extensive changes in existing laws and regulations, and regulatory frameworks, applicable to our businesses in the U.S. and internationally.

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

Many insurance regulatory and other governmental or self-regulatory bodies have the authority to review our products and business practices and those of our agents and employees and to bring regulatory or other legal actions against us if, in their view, our practices, or those of our agents or employees, are improper. These actions can result in substantial fines, penalties or prohibitions or restrictions on our business activities and could adversely affect our business, reputation, results of operations or financial condition. For a discussion of material pending litigation and regulatory matters, see Commitments and Guarantees, Contingent Liabilities and Litigation and Regulatory Matters in the Notes to

Consolidated Financial Statements included in this Annual Report on Form 10-K.

Congress from time to time considers pension reform legislation that could decrease the attractiveness of certain of our retirement products and services to retirement plan sponsors and administrators, or have an

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unfavorable effect on our ability to earn revenues from these products and services. In this regard, the Pension Protection Act of 2006 (PPA) made significant changes in employer pension funding obligations associated with defined benefit pension plans which are likely to increase sponsors costs of maintaining these plans. Over time, these changes could hinder our sales of defined benefit pension products and services and cause sponsors to discontinue existing plans for which we provide asset management, administrative, or other services, but could increase the attractiveness of certain group annuity products we offer in connection with terminating pension plans. Certain tax-favored savings initiatives that have been proposed could hinder sales and persistency of our products and services that support employment based retirement plans

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

Currently, there are several proposals to amend state insurance holding company laws to increase the scope of the regulation of insurance holding companies (such as Prudential Financial). These proposals include imposing standards for insurer corporate governance, group-wide supervision of insurance holding companies, adjustments to risk-based capital calculations to account for group-wide risks, and additional regulatory and disclosure requirements for insurance holding companies. In addition, state insurance regulators have focused attention on U.S. insurance solvency regulation pursuant to the NAIC s Solvency Modernization Initiative. At this time, we cannot predict with any degree of certainty what additional capital requirements, compliance costs or other burdens these requirements may impose on Prudential Financial.

The Financial Services Agency, the insurance regulator in Japan, has implemented revisions to the solvency margin requirements that will revise risk charges for certain assets and change the manner in which an insurance company s core capital is calculated. These changes are effective for the fiscal year ending March 31, 2012; however, it is anticipated that companies may begin to publicly disclose prior to that date both the old and new solvency margin calculations. While we believe that the solvency margins of our Japanese insurance subsidiaries would continue to satisfy regulatory requirements and our internal targets, it is possible that a reduction in our reported ratios arising from changes in the calculation requirements could affect customer perception of our financial strength. The capital requirements in Korea and Taiwan are also undergoing change.

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

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

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act will subject us to substantial additional federal regulation and we cannot predict the effect on our business, results of operations, cash flows or financial condition.

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank), which effects comprehensive changes to the regulation of financial services in the United States and subjects us to substantial additional federal regulation. Dodd-Frank directs existing and newly-created government agencies and bodies to promulgate regulations implementing the law, a process anticipated to occur over the next few years. We cannot predict with any certainty the requirements of the regulations ultimately adopted or how Dodd-Frank and such regulations will affect the financial markets generally, impact our business, credit or financial strength ratings, results of operations, cash flows or financial condition or advise or require us to hold or raise additional capital. Key aspects we have identified to date of Dodd-Frank s potential impact on us include:

Prudential Financial will become subject, as a savings and loan holding company, to regulation by the Board of Governors of the Federal Reserve System (FRB), which will have authority, among other

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powers, to impose capital requirements on the Company. We cannot predict what capital regulations the FRB will promulgate or how the FRB will exercise general supervisory authority over us.

If designated by the newly established Financial Stability Oversight Council (Council) as a systemically significant company, we would become subject to unspecified stricter prudential standards, including stricter requirements and limitations relating to risk-based capital, leverage, liquidity and credit exposure, as well as overall risk management requirements, management interlock prohibitions and a requirement to maintain a plan for rapid and orderly dissolution in the event of severe financial distress. Failure to meet defined measures of financial condition could result in substantial restrictions on our business. We cannot predict whether Prudential Financial or a subsidiary will be so designated.

We will become subject, as a savings and loan holding company (and if designated as a systemically significant company) to stress tests to be promulgated by the FRB which could cause us to alter our business practices or affect the perceptions of regulators, rating agencies, customers, counterparties or investors of our financial strength.

The Council could recommend new or heightened standards and safeguards for activities or practices we and other financial services companies engage in. We cannot predict whether any such recommendations will be made or their effect on our business, results of operations, cash flows or financial condition.

As a savings and loan holding company, we will become subject to the Volcker Rule provisions of Dodd-Frank prohibiting, subject to the rule s exceptions, proprietary trading and the sponsorship of, and investment in, funds (referred to in Dodd-Frank as hedge funds or private equity funds) that rely on certain exemptions from the Investment Company Act of 1940, as amended (collectively, covered funds). It is possible that regulations could require us to dispose of covered fund investments, significantly alter our business practices in these operations and/or diminish the attractiveness of our covered fund products to clients. In addition, actions taken by other financial entities in response to the Volcker Rule could potentially negatively affect the market for, returns from or liquidity of our investments in covered funds affiliated with such other financial entities.

Dodd-Frank creates a new framework for regulation of the over-the-counter (OTC) derivatives markets which could impact various activities of Prudential Global Funding (PGF), Prudential Financial and our insurance subsidiaries, which use derivatives for various purposes (including hedging interest rate, foreign currency and equity market exposures). Final regulations adopted could substantially increase the cost of hedging and related operations, affect the profitability of our products or their attractiveness to our clients or cause us to alter our hedging strategy or implementation thereof or increase and/or change the composition of the risks we do not hedge.

Dodd-Frank establishes a Federal Insurance Office within the Department of the Treasury which will perform various functions with respect to insurance and will conduct a study on how to modernize and improve the system of insurance regulation in the United States, including by increased national uniformity through either a federal charter or effective action by the states.

The FRB could require us to legally separate our financial and non-financial activities. While our non-financial activities are relatively minor, the imposition of such a requirement on us could be burdensome and costly to implement.

Title II of Dodd-Frank provides that a financial company such as Prudential Financial may be subject to a special orderly liquidation process outside the federal bankruptcy code, administered by the FDIC as receiver, upon a determination that the company is in default or in danger of default and presents a systemic risk to U.S. financial stability. We cannot predict how creditors of Prudential Financial or its insurance and non-insurance subsidiaries, including the holders of Prudential Financial debt, will evaluate this potential or whether it will impact our financing or hedging costs.

Dodd-Frank includes various securities law reforms that may affect our business practices and the liabilities and/or exposures associated therewith.

Dodd-Frank will and could impose various assessments on us, which we are unable to estimate at this time.

See Business Regulation for further discussion of the impact of Dodd-Frank on our businesses.

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

In addition to the adoption of Dodd-Frank in the United States, the Financial Stability Board (FSB), consisting of representatives of national financial authorities of the G20 nations, and the G20 have issued a series of papers and recommendations intended to produce significant changes in how financial companies, particularly companies that are members of large and complex financial groups, should be regulated. The lawmakers and regulatory authorities in a number of jurisdictions in which we do business have already begun introducing legislative and regulatory changes consistent with G20 and FSB recommendations, including proposals governing consolidated regulation of insurance holdings companies by the Financial Services Agency (FSA) in Japan, proposals governing executive compensation by the financial regulators in Germany (BaFIN) and the United Kingdom (FSA), and proposals to permit U.S.-style class action litigation in the United Kingdom with respect to financial services claims. In addition, the prudential regulation of insurance and reinsurance companies across the European Economic Area (EEA) is due for significant change under the Solvency II Directive, which was adopted on November 25, 2009 and is expected to come into force in January 2013. This new regime will effect a full revision of the insurance industry s solvency framework and prudential regime and may have significant implications for non-European insurance groups, like ourselves, that have established insurance undertakings (whether branches or subsidiaries) within the EEA.

We cannot predict with any certainty the effect these initiatives may have on the financial markets or on our business, results of operations, cash flows and financial condition.

Changes in accounting requirements could negatively impact our reported results of operations and our reported financial position.

Accounting standards are continuously evolving and subject to change. For example, it has been proposed that companies like Prudential Financial be required to report financial results in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board rather than U.S. GAAP. Regardless of whether the SEC requires IFRS, it is expected that U.S. GAAP will undergo extensive changes as a result of current standard setting initiatives of the Financial Accounting Standards Board. These and other changes in accounting standards may impose special demands on issuers in areas such as corporate governance, internal controls and disclosure. Changes in accounting standards, or their interpretation, may negatively effect our reported results of operations and our reported financial condition.

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

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

For example, the estate tax was completely eliminated for 2010, but modified carryover basis rules applied for property acquired from decedent s dying in that year. The estate tax has been reinstated through 2012 with a $5 million individual exemption, a 35% maximum rate and step-up in basis rules for property acquired from a decedent. Estates of decedents who died in 2010 can choose between the rules that were in effect in 2010 or the new rules. It is unclear what Congress will do with respect to the estate tax after 2012. This uncertainty makes estate planning difficult and may impact sales of our products.

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

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

On February 14, 2011, the Obama Administration released the General Explanations of the Administration s Revenue Proposals, or Revenue Proposals. Although the Administration has not released proposed statutory language, the Revenue Proposals include proposals which, if enacted, would affect the taxation of life insurance companies and certain life insurance products. In particular, the proposals would affect the treatment of corporate owned life insurance policies, or COLI, by limiting the availability of certain interest deductions for companies that purchase those policies. The proposals would also change the method used to determine the amount of dividend income received by a life insurance company on assets held in separate accounts used to support products, including variable life insurance and variable annuity contracts that are eligible for the DRD. If proposals of this type were enacted, the Company s sale of COLI, variable annuities, and variable life insurance products could be adversely affected and the Company s actual tax expense could increase, thereby reducing earnings.

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

There is generally uncertainty regarding U.S. taxes both for individuals and corporations in light of the fact that many tax provisions recently enacted or extended will sunset by the end of 2012. In addition, the recommendations made by the President s bipartisan National Commission on Fiscal Responsibility and Reform and other deficit reduction panels suggest the need to reform the U.S. Tax Code. In addition, Congress plans to hold a number of hearings during 2011 devoted to tax reform. It is unclear whether or when Congress may take up overall tax reform and what would be the impact of reform on the Company and its products. However even in the absence of overall tax reform, the large federal deficit, as well as the budget constraints faced by many states and localities, increases the likelihood that Congress and state and local governments will raise revenue by enacting legislation increasing the taxes paid by individuals and corporations. This can be accomplished either by raising rates or otherwise changing the tax rules. While higher tax rates increase the benefits of tax deferral on the build-up of value of annuities and life insurance, making our products more attractive to consumers, legislation that reduces or eliminates deferral would have a potential negative effect on our products. In addition, changes in the tax rules that result in higher corporate taxes will increase the Company s actual tax expense, thereby reducing earnings.

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

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

We are, and in the future may be, subject to legal and regulatory actions in the ordinary course of our businesses, including in businesses that we have divested or placed in wind-down status. Some of these proceedings have been brought on behalf of various alleged classes of complainants. In certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damages. Legal liability or adverse publicity in respect of these or future legal or regulatory actions could have an adverse affect on us or cause us reputational harm, which in turn could harm our business prospects.

Material pending litigation and regulatory matters affecting us, and certain risks to our businesses presented by such matters, are discussed under Commitments and Guarantees, Contingent Liabilities and Litigation and Regulatory Matters in the Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K. Our litigation and regulatory matters are subject to many uncertainties, and given their complexity and scope, their outcome cannot be predicted. Our reserves for litigation and regulatory matters may prove to be inadequate. It is possible that our results of operations or cash flow in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation and regulatory matters depending, in part, upon the results of operations or cash flow for such period. In light of the unpredictability of the Company s litigation and regulatory matters, it is also possible that in certain cases an ultimate unfavorable resolution of one or more pending litigation or regulatory matters could have a material adverse effect on the Company s financial position.

We may not be able to protect our intellectual property and may be subject to infringement claims.

We rely on a combination of contractual rights with third parties and copyright, trademark, patent and trade secret laws to establish and protect our intellectual property. Although we endeavor to protect our rights, third parties may infringe or misappropriate our intellectual property. We may have to litigate to enforce and protect our copyrights, trademarks, patents, trade secrets and know-how or to determine their scope, validity or enforceability. This would represent a diversion of resources that may be significant and our efforts may not prove successful. The inability to secure or protect our intellectual property assets could have a material adverse effect on our business and our ability to compete.

We may be subject to claims by third parties for (i) patent, trademark or copyright infringement, (ii) breach of copyright, trademark or license usage rights, or (iii) misappropriation of trade secrets. Any such claims and any resulting litigation could result in significant expense and liability for damages. If we were found to have infringed or misappropriated a third-party patent or other intellectual property right, we could in some circumstances be enjoined from providing certain products or services to our customers or from utilizing and benefiting from certain methods, processes, copyrights, trademarks, trade secrets or licenses. Alternatively, we could be required to enter into costly licensing arrangements with third parties or implement a costly work around. Any of these scenarios could have a material adverse effect on our business and results of operations.

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

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

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

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

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

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

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

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

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

Our policies, procedures and controls to monitor and manage risks, including hedging programs that utilize derivative financial instruments, may not be fully effective in achieving their purposes and may leave us exposed to unidentified and unanticipated risks. The Company uses models in its hedging programs and many other aspects of its operations, including but not limited to the estimation of actuarial reserves, the amortization of deferred acquisition costs and the valuation of business acquired, and the valuation of certain other assets and liabilities. These models rely on assumptions and projections that are inherently uncertain. Management of operational, legal and regulatory risks requires, among other things, policies, procedures and controls to record properly and verify a large number of transactions and events, and these policies, procedures and controls may not be fully effective.

Past or future misconduct by our employees or employees of our vendors could result in violations of law by us, regulatory sanctions and/or serious reputational or financial harm and the precautions we take to prevent and detect this activity may not be effective in all cases. Although we employ controls and procedures designed to monitor associates business decisions and prevent us from taking excessive or inappropriate risks, there can be no assurance that these controls and procedures are or may be effective. We review our compensation policies and practices as part of our overall risk management program, but it is possible that our compensation policies and practices could inadvertently incentivize excessive or inappropriate risk taking. If our associates take excessive or inappropriate risks, those risks could harm our reputation and have a material adverse effect on our results of operations or financial condition.

In our investments in which we hold a minority interest, we lack management and operational control over operations, which may prevent us from taking or causing to be taken actions to protect or increase the value of those investments. In those jurisdictions where we are constrained by law from owning a majority interest in jointly owned operations, our remedies in the event of a breach by a joint venture partner may be limited (e.g., we may have no ability to exercise a call option).

Interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems, could harm our business.

We depend heavily on our telecommunication, information technology and other operational systems and on the integrity and timeliness of data we use to run our businesses and service our customers. These systems may fail to operate properly or become disabled as a result of events or circumstances wholly or partly beyond our control. Further, we face the risk of operational and technology failures by others, including clearing agents, exchanges and other financial intermediaries and of vendors and parties to which we outsource the provision of services or business operations. If these parties do not perform as anticipated, we may experience operational difficulties, increased costs and other adverse effects on our business. These risks are heightened by our offering of increasingly complex products, such as those that feature automatic asset transfer or re-allocation strategies, and by our employment of complex investment, trading and hedging programs.

Despite our implementation of a variety of security measures, our information technology and other systems could be subject to physical or electronic break-ins, unauthorized tampering or other security breaches, resulting in a failure to maintain the security, confidentiality or privacy of sensitive data, including personal information relating to customers.

Interruption in telecommunication, information technology and other operational systems, or a failure to maintain the security, confidentiality or privacy of sensitive data residing on such systems, whether due to actions by us or others, could delay or disrupt our ability to do business and service our customers, harm our reputation, subject us to regulatory sanctions and other claims, lead to a loss of customers and revenues and otherwise adversely affect our business.

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

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

We are subject to risks relating to the acquisition, and post-acquisition operations, of the Star and Edison businesses in Japan.

On February 1, 2011, we completed the acquisition from American International Group, Inc. (AIG) of AIG Star Life Insurance Co., Ltd. (Star) and AIG Edison Life Insurance Company (Edison) and certain other AIG subsidiaries in Japan (the Acquisition). For a description of the acquired businesses (collectively, the Star and Edison Businesses) and the Acquisition, see Management s Discussion and Analysis of Financial Condition and Results of Operations under Results of Operations for Financial Services Businesses by Segment International Insurance and Investments Division and Liquidity and Capital Resources. We are subject to certain risks relating to the Acquisition and the Star and Edison Businesses, which risks could adversely affect, possibly materially, our business, results of operations, financial position or liquidity or prevent us from realizing the expected benefits from the Acquisition. These risks include the following:

- We may experience difficulties in integrating the Star and Edison Businesses and the process of integration may take longer than expected. Our ability to achieve the benefits we anticipate from the Acquisition will depend upon whether we are able to integrate the Star and Edison Businesses into our existing Japanese business in an efficient and effective manner. The integration of certain operations will require the dedication of significant management resources over a long period, which may distract management s attention from day-to-day business operations.

We expect to incur significant one-time costs in connection with the Acquisition and the related integration of the Star and Edison Businesses. The costs and liabilities actually incurred in connection with the Acquisition and subsequent integration process may exceed those anticipated. We may not realize cost savings, efficiencies or synergies that we anticipate.

We intend to reposition the existing investment portfolios of the Star and Edison Businesses to reflect our desired lower risk profile, including a re-allocation among investment asset classes. The terms at which this repositioning is implemented are dependent on market conditions, including the level of interest rates, and such repositioning may lower yields and net investment income relative to our expectations. We may not be successful in carrying out this repositioning as intended, or we may experience delays in effecting the repositioning, in which case the portfolios may be subject to a level of investment risk that is greater than we plan or believe to be optimal.

There is the risk that we will be exposed to obligations and liabilities of Star and Edison that are not adequately covered, in amount, scope or duration, by the indemnification provisions in the stock purchase agreement or reflected or reserved for in the historical financial statements of the Star and Edison Businesses, and there is the risk that such historical financial statements may contain errors.

The publicized financial difficulties involving AIG have negatively affected the Star and Edison Businesses. Any perception of additional instability surrounding AIG or other events relating to AIG may adversely impact the reputation of the Star and Edison Businesses or of the Company and adversely affect the ability of the Star and Edison Businesses to retain employees, customers and distributors. Furthermore, following the completion of the Acquisition, the Star and Edison Businesses will continue to have relationships with and rely upon AIG, including for the receipt of transition services.

The Star and Edison Businesses are also subject to many of the other risks described in this section to which our existing businesses, particularly those in Japan, are subject, including but not limited to risks associated with economic, market and political conditions, capital and liquidity, foreign exchange fluctuations and regulatory and legal matters.

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

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

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

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

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

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

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

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

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

Net income for the Financial Services Businesses and the Closed Block Business includes general and administrative expenses charged to each of the respective Businesses based on the Company s methodology for the allocation of such expenses. Cash flows to the Financial Services Businesses from the Closed Block Business related to administrative expenses are determined by a policy servicing fee arrangement that is based upon insurance and policies in force and statutory cash premiums. The difference between the administrative expenses allocated to the Closed Block Business and these cash flow amounts are recorded, on an after tax basis, as direct equity adjustments to the equity balances of the businesses and included in the determination of earnings per share for each Business. A change in cash flow amounts between the Businesses that is inconsistent with changes in general and administrative expenses we incur will affect the earnings per share of the Common Stock and Class B Stock.

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

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

We may exchange the Class B Stock for shares of Common Stock at any time, and the Class B Stock is mandatorily exchangeable in the event of a sale of all or substantially all of the Closed Block Business or a change of control of Prudential Financial. Under these circumstances, shares of Class B Stock would be exchanged for shares of Common Stock with an aggregate average market value equal to 120% of the then appraised Fair Market Value of the Class B Stock. For a description of change of control and Fair Market Value, see Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Convertibility.

Holders of Class B Stock may at their discretion, beginning in 2016, and at any time in the event of specified regulatory events, convert their shares of Class B Stock into shares of Common Stock with an aggregate average market value equal to 100% of the then appraised Fair Market Value of the Class B Stock. Any exchange or conversion could occur at a time when either or both of the Common Stock and Class B Stock may be considered overvalued or undervalued. Accordingly, any such exchange or conversion may be disadvantageous to holders of Common Stock.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 1C. EXECUTIVE OFFICERS OF THE REGISTRANT

The names of the executive officers of Prudential Financial and their respective ages and positions, as of February 25, 2011, were as follows:

Name	Age	Title	Other Directorships
John R. Strangfeld, Jr.	57	Chairman, Chief Executive Officer and President	None
Mark B. Grier	58	Vice Chairman	None
Edward P. Baird	62	Executive Vice President and Chief Operating Officer, International Businesses	None
Richard J. Carbone	63	Executive Vice President and Chief Financial Officer	None
Charles F. Lowrey	53	Executive Vice President and Chief Operating Officer, U.S. Businesses	None
Susan L. Blount	53	Senior Vice President and General Counsel	None
Helen M. Galt	63	Senior Vice President, Company Actuary and Chief Risk Officer	None
Sharon C. Taylor	56	Senior Vice President, Human Resources	None

Biographical information about Prudential Financial executive officers is as follows:

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

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

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

Richard J. Carbone was elected Executive Vice President of Prudential Financial and Prudential Insurance in January 2008. He has served as Chief Financial Officer of Prudential Financial since December 2000 and of Prudential Insurance since July 1997. He has also served as Senior Vice President of Prudential Financial from November 2001 to January 2008 and Senior Vice President of Prudential Insurance from July 1997 to January 2008. Prior to that, Mr. Carbone was the Global Controller and a Managing Director of Salomon, Inc. from July 1995 to June 1997; and Controller of Bankers Trust New York Corporation and a Managing Director and Controller of Bankers Trust Company from April 1988 to March 1993; and Managing Director and Chief Administrative Officer of the Private Client Group at Bankers Trust Company from March 1993 to June 1995.

Charles F. Lowrey was elected Executive Vice President and Chief Operating Officer, U.S. Businesses, of Prudential Financial and Prudential Insurance in February 2011. He served as Chief Executive Officer and President of Prudential Investment Management, Inc. from January 2008 to February 2011; and as Chief Executive Officer of Prudential Real Estate Investors, our real estate investment management and advisory business from February 2002 to January 2008. He joined the Company in March 2001, after serving as a managing director and head of the Americas for J.P. Morgan s Real Estate and Lodging Investment Banking group, where he began his investment banking career in 1988. He also spent four years as a managing partner of an architecture and development firm he founded in New York City.

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

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

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

ITEM 2. PROPERTIES

We own our headquarters building located at 751 Broad Street, Newark, New Jersey, which comprises approximately 0.6 million square feet. Excluding our headquarters building and properties used by the International Insurance and Investments division and Asset Management segment, which are discussed below,

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we own eight and lease 10 other principal properties throughout the U.S., some of which are used for home office functions. Our domestic operations also lease approximately 210 other locations throughout the U.S.

For our International Insurance segment, we own five home offices located in Japan, Korea, Taiwan, Brazil and Argentina, and lease five home offices located in China, Italy, Mexico, India and Poland. We also own approximately 170 and lease approximately 440 other properties, primarily field offices, located throughout these same countries. For our International Investments segment, we own one head office and lease approximately 20 other properties, primarily field and branch offices throughout India, Taiwan, Hong Kong, Germany, Japan and the United Kingdom. For our Asset Management segment, we lease nine international principal properties located in Brazil, Mexico, Japan, Hong Kong, Singapore, Germany and the United Kingdom, in addition to approximately 10 other branch offices within Europe and Asia.

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

ITEM 3. LEGAL PROCEEDINGS

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

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

Our litigation and regulatory matters are subject to many uncertainties, and given their complexity and scope, their outcome cannot be predicted. It is possible that our results of operations or cash flow in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation or regulatory matters depending, in part, upon the results of operations or cash flow for such period. In light of the unpredictability of the Company s litigation and regulatory matters, it is also possible that in certain

cases an ultimate unfavorable resolution of one or more pending litigation or regulatory matters could have a material adverse effect on our financial position. Management believes, however, that, based on information currently known to it, the ultimate outcome of all pending litigation and regulatory matters, after consideration of applicable reserves and rights to indemnification, is not likely to have a material adverse effect on our financial position.

ITEM 4. (Removed and Reserved)

PART II

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

General

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

	High	Low	Dividends
2010:			
Fourth Quarter	$ 59.95	$ 50.68	$ 1.15
Third Quarter	59.54	49.65	
Second Quarter	65.82	53.66	
First Quarter	60.50	47.02	
2009:			
Fourth Quarter	$ 52.82	$ 44.64	$ 0.70
Third Quarter	54.63	33.28	
Second Quarter	46.00	20.50	
First Quarter	35.11	11.29	

On January 31, 2011, there were 2,059,447 registered holders of record for the Common Stock and 484 million shares outstanding.

The Class B Stock was issued to institutional investors (two subsidiaries of American International Group, Inc. and Pacific Life Corp.) in a private placement pursuant to Section 4(2) of the Securities Act of 1933 on the date of demutualization. There is no established public trading market for the Class B Stock. During the fourth quarter of 2010 and 2009, Prudential Financial paid an annual dividend of $9.625 per share of Class B Stock. On January 31, 2011, there were three holders of record for the Class B Stock and 2 million shares outstanding.

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

In December 2006, Prudential Financial issued in a private placement $2.0 billion of floating rate convertible senior notes, convertible by the holders at any time after issuance into cash and shares of the Company s Common Stock. The Company used the majority of the offering proceeds initially to invest in an investment grade fixed income investment portfolio, while the remainder of the proceeds were used for general corporate purposes and to repurchase shares of its Common Stock under the 2006 share repurchase authorization. On December 12, 2007, $117 million of senior notes were repurchased by Prudential Financial at the request of the holders and prior to this event we liquidated the investment portfolio. On December 12, 2008 and December 14, 2009, Prudential Financial repurchased $1.879 billion and $2 million of senior notes, respectively, at the request of the holders. As of December 31, 2010, $0.4 million of these notes remain outstanding.

In September 2009, Prudential Insurance issued in a private placement $500 million of surplus notes due September 2019 with an interest rate of 5.36% per annum. The surplus notes are exchangeable at the option of the holder, in whole but not in part, for shares of Prudential Financial Common Stock beginning in September 2014, or earlier upon a fundamental business combination involving Prudential Financial or a continuing payment default. The initial exchange rate for the surplus notes is 10.1235 shares of Common Stock per each $1,000 principal amount of surplus notes, which represents an initial exchange price per share of Common Stock of $98.78; however, the exchange rate is subject to customary anti-dilution and other adjustments.

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

See Item 12 for information about our equity compensation plans.

Common Stock and Class B Stock

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

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

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

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

Dividends declared and paid on the Common Stock will depend upon the financial performance of the Financial Services Businesses. Dividends declared and paid on the Class B Stock will depend upon the financial performance of the Closed Block Business and, as the Closed Block matures, the holders of the Class B Stock will receive the surplus of the Closed Block Business no longer required to support the Closed Block for regulatory purposes. Dividends on the Class B Stock will be payable in an aggregate amount per year at least equal to the lesser of (1) a Target Dividend Amount of $19.25 million or (2) the CB Distributable Cash Flow, as defined below in Convertibility, for such year, which is a measure of the net cash flows of the Closed Block Business. Notwithstanding this formula, as with any common stock, we will retain the flexibility to suspend dividends on the Class B Stock; however, if CB Distributable Cash Flow exists for any period and Prudential Financial chooses not to pay dividends on the Class B Stock in an aggregate amount at least equal to the lesser of the CB Distributable Cash Flow or the Target Dividend Amount for that period, then cash dividends cannot be paid on the Common Stock with respect to such period. The principal component of CB Distributable

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Cash Flow will be the amount by which Surplus and Related Assets, determined according to statutory accounting principles, exceed surplus that would be required for the Closed Block Business considered as a separate insurer; provided, however, that CB Distributable Cash Flow counts such excess only to the extent distributable as a dividend by Prudential Insurance under specified, but not all, provisions of New Jersey insurance law. Subject to the discretion of the Board of Directors of Prudential Financial, we currently anticipate paying dividends on the Class B Stock at the Target Dividend Amount for the foreseeable future.

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

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

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

Convertibility

The Common Stock is not convertible.

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

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

Holders of Class B Stock will be permitted to convert their shares of Class B Stock into such number of shares of Common Stock as have an aggregate average market value equal to 100% of the appraised Fair Market

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

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

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

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

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

Issuer Purchases of Equity Securities

The following table provides information about purchases by the Company during the three months ended December 31, 2010 of its Common Stock.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program(1)	Approximate Dollar Value of Shares that May Yet be Purchased under the Program
October 1, 2010 through October 31, 2010	2,376	$ 53.90		
November 1, 2010 through November 30, 2010	9,200	$ 54.52		
December 1, 2010 through December 31, 2010	3,196	$ 55.15		
Total	14,772	$ 54.56		$

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

ITEM 6. SELECTED FINANCIAL DATA

We derived the selected consolidated income statement data for the years ended December 31, 2010, 2009 and 2008 and the selected consolidated balance sheet data as of December 31, 2010 and 2009 from our Consolidated Financial Statements included elsewhere herein. We derived the selected consolidated income statement data for the years ended December 31, 2007 and 2006 and the selected consolidated balance sheet data as of December 31, 2008, 2007 and 2006 from consolidated financial statements not included herein.

On December 31, 2009, we completed the sale of our minority joint venture interest in Wachovia Securities. In 2009, Equity in earnings of operating joint ventures, net of taxes includes a pre-tax gain on the sale of

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$2.247 billion. In addition, General and administrative expenses includes certain one-time costs related to the sale of the joint venture interest of $104 million for pre-tax compensation costs and costs related to increased contributions to the Company s charitable foundation. The total of these items is an after-tax gain of $1.389 billion, or $2.95 per share of Common Stock. See Note 7 to the Consolidated Financial Statements for additional information.

On May 1, 2009, we acquired Yamato Life, a Japanese life insurance company that declared bankruptcy in October 2008, and renamed The Prudential Gibraltar Financial Life Insurance Company, Ltd. Results presented below include the results of this company from the date of acquisition.

The 2009 income tax provision includes a benefit of $272 million from a reduction to the liability for unrecognized tax benefits and related interest, primarily related to tax years prior to 2002 as a result of the expiration of the statute of limitations for the 2002 and 2003 tax years.

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

Our Gibraltar Life operations use a November 30 fiscal year end. Consolidated balance sheet data as of December 31, 2010, 2009, 2008, 2007 and 2006 includes Gibraltar Life assets and liabilities as of November 30. Consolidated income statement data for 2010, 2009, 2008, 2007 and 2006 includes Gibraltar Life results for the twelve months ended November 30, 2010, 2009, 2008, 2007 and 2006, respectively.

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

	Year Ended December 31,				
	2010	**2009**	**2008**	**2007**	**2006**
	(in millions, except per share and ratio information)				
Income Statement Data:					
Revenues:					
Premiums	$ 18,260	$ 16,545	$ 15,468	$ 14,351	$ 13,908
Policy charges and fee income	3,321	2,833	3,138	3,131	2,653
Net investment income	11,875	11,403	11,861	11,992	11,306
Asset management fees and other income	3,908	4,682	980	3,981	3,389
Realized investment gains (losses), net	1,050	(2,897)	(2,457)	612	785
Total revenues	38,414	32,566	28,990	34,067	32,041
Benefits and expenses:					
Policyholders benefits	18,285	16,346	16,531	14,749	14,283
Interest credited to policyholders account balances	4,209	4,484	2,335	3,222	2,917
Dividends to policyholders	2,189	1,298	2,218	2,903	2,622
Amortization of deferred policy acquisition costs	1,437	1,494	1,424	996	746
General and administrative expenses	7,872	7,392	7,708	7,657	7,173
Total benefits and expenses	33,992	31,014	30,216	29,527	27,741
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	4,422	1,552	(1,226)	4,540	4,300
Income tax expense (benefit)	1,310	(54)	(517)	1,208	1,212
Income (loss) from continuing operations before equity in earnings of operating joint ventures	3,112	1,606	(709)	3,332	3,088
Equity in earnings of operating joint ventures, net of taxes	84	1,523	(447)	246	208
Income (loss) from continuing operations	3,196	3,129	(1,156)	3,578	3,296
Income (loss) from discontinued operations, net of taxes	10	(39)	75	151	121
Net income (loss)	3,206	3,090	(1,081)	3,729	3,417
Less: Income (loss) attributable to noncontrolling interests	11	(34)	36	67	25
Net Income (loss) attributable to Prudential Financial, Inc.	$ 3,195	$ 3,124	$ (1,117)	$ 3,662	$ 3,392
Basic income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Common Stock	$ 5.80	$ 7.77	$ (2.70)	$ 7.34	$ 6.27
Diluted income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Common Stock	$ 5.73	$ 7.72	$ (2.70)	$ 7.24	$ 6.18
Basic net income (loss) attributable to Prudential Financial, Inc. per share Common Stock	$ 5.82	$ 7.68	$ (2.53)	$ 7.61	$ 6.50
Diluted net income (loss) attributable to Prudential Financial, Inc. per share Common Stock	$ 5.75	$ 7.63	$ (2.53)	$ 7.51	$ 6.41
Basic and diluted income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Class B Stock	$ 222.00	$ (165.00)	$ (16.00)	$ 68.50	$ 108.00
Basic and diluted net income (loss) attributable to Prudential					

Financial, Inc. per share Class B Stock	$ 222.50	$ (165.00)	$ (16.00)	$ 69.50	$ 108.00
Dividends declared per share Common Stock	$ 1.15	$ 0.70	$ 0.58	$ 1.15	$ 0.95
Dividends declared per share Class B Stock	$ 9.625	$ 9.625	$ 9.625	$ 9.625	$ 9.625
Ratio of earnings to fixed charges(1)	1.80	1.71		1.99	2.08

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	As of December 31,				
	2010	2009	2008	2007	2006
			(in millions)		
Balance Sheet Data:					
Total investments excluding policy loans	$ 273,245	$ 250,406	$ 232,322	$ 234,220	$ 226,737
Separate account assets	207,776	174,074	147,095	195,583	177,463
Total assets	539,854	480,203	445,011	485,813	454,266
Future policy benefits and policyholders account balances	240,315	227,373	221,564	195,731	187,652
Separate account liabilities	207,776	174,074	147,095	195,583	177,463
Short-term debt	1,982	3,122	10,535	15,566	12,472
Long-term debt	23,653	21,037	20,290	14,101	11,423
Total liabilities	506,926	454,474	431,225	461,890	431,005
Prudential Financial, Inc. equity(2)	32,415	25,195	13,435	23,514	22,932
Noncontrolling interests	513	534	351	409	329
Total equity(2)	$ 32,928	$ 25,729	$ 13,786	$ 23,923	$ 23,261

(1) For purposes of this computation, earnings are defined as income from continuing operations before income taxes excluding undistributed income (loss) from equity method investments, fixed charges and interest capitalized. Also excludes earnings attributable to noncontrolling interests. Fixed charges are the sum of gross interest expense, interest credited to policyholders account balances and an estimated interest component of rent expense. Due to the Company s loss for the year ended December 31, 2008, the ratio coverage was less than 1:1 and is therefore not presented. Additional earnings of $859 million would have been required for the year ended December 31, 2008 to achieve a ratio of 1:1.

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

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

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

Overview

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

Financial Services Businesses

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

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

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

Closed Block Business

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

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

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

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

Revenues and Expenses

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

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Profitability

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

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

our ability to attract and retain talent.

In addition, factors such as credit and real estate market conditions, regulation, competition, interest rates, taxes, foreign exchange rates, market fluctuations and general economic, market and political conditions affect our profitability. In some of our product lines, particularly those in the Closed Block Business, we share experience on mortality, morbidity, persistency and investment results with our customers, which can offset the impact of these factors on our profitability from those products.

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

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

Executive Summary

Prudential Financial, a financial services leader with approximately $784 billion of assets under management as of December 31, 2010, has operations in the United States, Asia, Europe and Latin America. Through our subsidiaries and affiliates, we offer a wide array of financial products and services, including life insurance, annuities, retirement-related services, mutual funds, investment management, and real estate services. We offer these products and services to individual and institutional customers through one of the largest distribution networks in the financial services industry.

Industry Trends

Our U.S. and international businesses are impacted by financial markets, economic conditions, regulatory oversight, and a variety of trends that affect the industries where we compete.

U.S. Businesses

Financial and Economic Environment. Our businesses and results of operations are impacted by general economic and market conditions and are sensitive to changes in equity markets, interest rates and real estate valuations. The adverse market and economic conditions that began in the second half of 2007 have improved. The equity and fixed income markets continue to recover while the real estate markets stabilize and begin to show signs of recovery. Interest rates and the pace and extent of changes in rates have impacted the profitability of certain products we offer as well as returns on the investment portfolio backing our insurance liabilities and equity. Disruptions in the credit markets in recent years have also limited sales opportunities for certain products we offer.

Regulatory Environment. Our businesses are subject to comprehensive regulation and supervision. The financial market dislocations we have experienced have produced, and are expected to continue to produce, extensive changes in existing laws and regulations, and regulatory frameworks applicable to our businesses. In particular, the Dodd-Frank Wall Street Reform and Consumer Protection Act signed into law on July 21, 2010 made comprehensive changes to the regulation of financial services in the U.S. and subjects us to substantial additional federal regulation. In addition, state insurance laws regulate all aspects of our U.S. insurance businesses and our insurance products are substantially affected by federal and state tax laws. Insurance regulators have begun to implement significant changes in the way in which industry participants must determine statutory reserves and statutory capital, particularly for products with embedded options and guarantees such as variable annuities, and are considering further potentially significant changes in these requirements. In addition, Congress from time to time considers legislation impacting U.S. federal income tax laws, such as the possible elimination of the dividends received deduction, which could adversely impact profitability or make our products less attractive to consumers.

Demographics. Income protection, wealth accumulation and the needs of retiring baby boomers continue to shape the insurance industry. Retirement security is one of the most critical issues in the U.S. for individuals and the investment professionals and institutions that support them. The risk and responsibility of retirement savings continues to shift to employees, away from the government and employers. Life insurance ownership among U.S. households has reached its lowest point in fifty years, with consumers citing other financial priorities and cost of insurance as reasons for the lack of coverage.

Competitive Environment. Our annuities, retirement and asset management businesses operate in a highly competitive environment. For the annuities business, market volatility in recent years has led many companies within the industry to reduce risks in product features and increase costs. In addition, some peer companies have either exited the variable annuity marketplace or substantially reduced product features. We believe our innovative product offerings have increased our competitiveness, thus increasing our sales. All of our new variable annuity sales, as well as a significant portion of our in force business, where an optional living benefit has been elected, include an automatic rebalancing feature, which is valued in the marketplace. Our retirement and asset management businesses compete on price, service and investment performance. The full service retirement markets are mature, with few dominant players. We have seen a trend toward unbundling of the

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purchase decision related to the recordkeeping and investment offerings, where the variety of available funds and their performance are the key selection criteria of plan sponsors and intermediaries. Market disruption and rating agency downgrades have caused some of our institutional investment product competitors to withdraw from the market, creating significant growth opportunities for us in certain markets, including the investment-only stable value market. The continued recovery of the equity, fixed income, and real estate markets in 2010 have positively impacted asset managers by increasing assets and therefore fee levels. In addition, institutional fixed income managers have generally experienced positive flows as investors have re-allocated assets into fixed income to reduce risk, including the reduction of risk in pension plans.

The individual life and group life and disability markets are mature and, due to the large number of competitors, competition is driven mainly by price and service. The economy has exacerbated pressure on pricing, creating an even greater challenge of maintaining pricing discipline. This has negatively impacted our individual life sales, in an industry which has shifted toward non-proprietary distribution channels, which are more price sensitive than proprietary distribution channels. For group products, rate guarantees have become the industry norm, with rate guarantee durations trending upward as a general industry practice. There is also an increased demand from clients for bundling of products and services to streamline administration and save costs by dealing with fewer carriers. As employers are attempting to control costs and shift benefit decisions and funding to employees, who continue to value benefits offered in the workplace, employee-pay (voluntary) product offerings and services are becoming increasingly important in the group market. Industry sales of voluntary products, as well as our own, were up again in 2010 despite the economic downturn.

International Businesses

Financial and Economic Environment. Our international businesses and the financial results of these operations are impacted by the global economy as well as the financial and economic conditions in the countries in which we operate. Recent periods have been characterized by low interest rates. Similar to our U.S. businesses, interest rates and the pace and extent of changes in rates have impacted the profitability of certain products we offer as well as returns on the investment portfolio backing our insurance liabilities and equity. Our Japanese operations have operated in this environment for an extended period. We are also subject to financial impacts associated with movements in foreign currency rates, particularly the Japanese Yen.

Regulatory Environment. Our international insurance and investments operations are subject to comprehensive local regulation and supervision. It is likely that the recent financial market dislocations will lead to changes in existing laws and regulations, and regulatory frameworks affecting our international businesses. The Financial Services Agency (FSA), the insurance regulator in Japan, has proposed revisions to the solvency margin requirements that will revise risk charges for certain assets and change the manner in which an insurance company s core capital is calculated. These changes are expected to become effective for the fiscal year ending March 31, 2012. The capital requirements in Korea and Taiwan are also undergoing changes. The FSA in Japan has introduced other measures to prevent, in the future, similar problems to those experienced during the recent financial crisis, including a new regulatory framework for credit rating agencies, strengthened disclosure requirements and increased oversight of financial institutions. In addition, local regulations, primarily in Japan, may apply heightened scrutiny to non-domestic companies. Our international investments businesses are also impacted by regulatory changes implemented or proposed in many of the countries in which we operate.

Competitive Environment. The life insurance markets in Japan and Korea are mature. We generally compete more on service provided to the customers than on price. The aging of Japan s population creates an increasing need for product innovation, introducing insurance products which allow for savings and income as the population transitions to retirement. In addition, several competitors have exited the life insurance business, creating greater opportunities for us to penetrate this market. For our international investments operations, the competitive landscape is influenced by implemented or planned regulatory changes, particularly in Mexico, Taiwan and China.

Current Developments

On February 1, 2011, Prudential Financial completed the acquisition from American International Group, Inc., or AIG, of AIG Star Life Insurance Co., Ltd., or Star, AIG Edison Life Insurance Company, or Edison, and certain other AIG subsidiaries pursuant to the stock purchase agreement dated September 30, 2010 between

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Prudential Financial and AIG. The total purchase price was approximately $4.8 billion, comprised of approximately $4.2 billion in cash and $0.6 billion in assumed third party debt, substantially all of which is expected to be repaid, over time, with excess capital of the acquired entities. To partially fund the acquisition purchase price, in November 2010, Prudential Financial completed a public offering and sale of 18,348,624 shares of Common Stock and $1.0 billion of medium-term notes, resulting in aggregate proceeds of approximately $2.0 billion. The remainder of the purchase price was funded with approximately $2.2 billion of cash and short-term investments. See Results of Operations for Financial Services Businesses by Segment International Insurance and Investments Division International Insurance and Liquidity and Capital Resources for more information on this acquisition.

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

Our financial condition and results of operations for the year ended December 31, 2010 reflect the following:

- Net income of our Financial Services Businesses attributable to Prudential Financial, Inc. for the year ended December 31, 2010 was $2.714 billion compared to $3.411 billion for 2009, which included a $1.457 billion after-tax gain from the sale of our minority joint venture interest in Wachovia Securities.

- Pre-tax net realized investment losses and related charges and adjustments of the Financial Services Businesses in 2010 were $72 million, primarily reflecting other-than-temporary impairments of fixed maturities partially offset by net realized investment gains from increases in the market value of derivatives primarily related to interest rate derivatives used to manage investment portfolio duration and net gains related to the embedded derivatives and related hedge positions associated with certain of our variable annuity contracts partially offset by the impact of foreign currency exchange rates.

- Net unrealized gains on general account fixed maturity investments of the Financial Services Businesses amounted to $5.726 billion as of December 31, 2010, compared to net unrealized gains of $998 million as of December 31, 2009. Gross unrealized gains increased from $5.387 billion as of December 31, 2009 to $8.826 billion as of December 31, 2010 and gross unrealized losses decreased from $4.389 billion to $3.100 billion for the same periods primarily due to a net decrease in interest rates, mainly the result of risk free rates. Net unrealized gains on general account fixed maturity investments of the Closed Block Business amounted to $1.671 billion as of December 31, 2010, compared to net unrealized gains of $7 million as of December 31, 2009.

- Individual Annuity total account values of $106.2 billion and gross sales of $21.8 billion in 2010 represented record highs. Individual Annuity net sales also reached a record high in 2010 of $14.6 billion, an increase from $10.3 billion in the prior year.

- Full Service Retirement account values reached a record high of $141.3 billion at December 31, 2010. Total account values for the Retirement segment also reached a record high of $205.5 billion.

- Asset Management reached record high institutional net flows of $28.6 billion in 2010 and $537 billion in assets under management as of December 31, 2010.

- International Insurance constant dollar basis annualized new business premiums were $1.8 billion in 2010, an increase from $1.4 billion in the prior year.

Individual Life annualized new business premiums were $260 million in 2010, compared to $359 million in 2009. Group Insurance annualized new business premiums were $607 million in 2010, compared to $577 million in 2009.

As of December 31, 2010, Prudential Financial, the parent holding company, had cash and short-term investments of $6.672 billion.

On November 9, 2010, Prudential Financial declared an annual dividend for 2010 of $1.15 per share of Common Stock, reflecting an increase of approximately 64% from the 2009 Common Stock dividend.

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Outlook

Management expects that results in 2011 will continue to reflect the quality of our individual businesses and their prospects, as well as our overall business mix and effective capital management. In 2011, we continue to focus on long-term strategic positioning and growth opportunities, including the following:

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

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

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

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Results of Operations

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

Shown below are the contributions of each segment and Corporate and Other operations to our adjusted operating income for the years ended December 31, 2010, 2009 and 2008 and a reconciliation of adjusted operating income of our segments and Corporate and Other operations to income from continuing operations before income taxes and equity in earnings of operating joint ventures.

	Year ended December 31,		
	2010	2009	2008
		(in millions)	
Adjusted operating income before income taxes for segments of the Financial Services Businesses:			
Individual Annuities	$ 1,046	$ 757	$ (890)
Retirement	572	494	545
Asset Management	487	55	232
Total U.S. Retirement Solutions and Investment Management Division	2,105	1,306	(113)
Individual Life	500	562	446
Group Insurance	215	331	340
Total U.S. Individual Life and Group Insurance Division	715	893	786
International Insurance	2,057	1,843	1,747
International Investments	46	27	(360)
Total International Insurance and Investments Division	2,103	1,870	1,387
Corporate and Other	(871)	(795)	(395)
Adjusted operating income before income taxes for the Financial Services Businesses	4,052	3,274	1,665
Reconciling Items:			
Realized investment gains (losses), net, and related adjustments	106	(1,219)	(2,777)
Charges related to realized investment gains (losses), net	(178)	(492)	293
Investment gains (losses) on trading account assets supporting insurance liabilities, net	501	1,601	(1,734)
Change in experience-rated contractholder liabilities due to asset value changes	(631)	(899)	1,163
Divested businesses	(55)	2,131	(506)
Equity in earnings of operating joint ventures	(98)	(2,364)	654
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	3,697	2,032	(1,242)
Income (loss) from continuing operations before income taxes for Closed Block Business	725	(480)	16
Consolidated income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 4,422	$ 1,552	$ (1,226)

Results for 2010 presented above reflect the following:

Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for the Financial Services Businesses for the year ended December 31, 2010 was $3,697 million, compared to $2,032 million for 2009. Adjusted operating income before income taxes for the Financial Services Businesses for the year ended December 31, 2010 was $4,052 million, compared to $3,274 million for 2009.

Individual Annuities segment results for 2010 increased in comparison to 2009 primarily reflecting higher fee income resulting from the impact of positive net flows and market appreciation on variable annuity account values during 2010.

Retirement segment results for 2010 increased in comparison to 2009 primarily driven by higher asset-based fees due to an increase in average full service fee-based retirement account values resulting from market appreciation and net additions during 2010, and improved net investment spread results.

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Asset Management segment results improved in 2010 in comparison to 2009 primarily from improved results from the segment s commercial mortgage and proprietary investing activities and increased asset management fees.

Individual Life segment results declined in 2010 compared to 2009 including $33 million from changes in mortality experience compared to expected levels. The current year included slightly unfavorable mortality experience, net of reinsurance relative to expected levels, compared to favorable mortality experience in the prior year. Results in 2010 also reflect an increase in amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves, reflecting the impact of equity markets on separate account fund performance in the respective periods, partially offset by the favorable impact of variable life policyholder persistency. Also contributing to the decline was a $30 million benefit in 2009 from compensation received based on multi-year profitability of third-party products we distribute, compared to a benefit of less than $1 million in 2010.

Group Insurance segment results declined in 2010, compared to 2009. Results in 2010 reflect the net benefit from reserve refinements in both the group life and group disability businesses, including the impact from annual reviews, compared to a net benefit of zero in 2009. Excluding this item, the decrease in adjusted operating income primarily reflects less favorable group life underwriting results due largely to the lapse of certain business and repricing of other business up for renewal with favorable claims experience in the prior year, reflecting the competitive market, as well as an increase in the number and severity of claims. Results in 2010 also reflect less favorable long-term disability claims experience consistent with the economic downturn. In addition, operating expenses increased, including higher costs to support disability operations and expansion into the group dental market.

International Insurance segment results for 2010 improved from 2009. Results from the segment s Life Planner operations improved in 2010, reflecting the continued growth of our Japanese Life Planner operation, partially offset by the comparative impact of a net charge in 2010 and a net benefit to results in 2009 from refinements due to implementation of a new policy valuation system. Results from the segment s Gibraltar Life operation included a pre-tax gain of $66 million related to shares sold by a consortium of investors that holds a minority interest in China Pacific Insurance (Group) Co., Ltd. The remainder of the improvements in results in 2010 came primarily from continued growth in our fixed annuity products, which are primarily denominated in U.S. dollars, and from business growth in protection products reflecting expanding bank channel distribution, as well as a greater contribution from non-coupon investments.

International Investments segment results for 2010 improved from 2009 primarily reflecting more favorable sales and trading results in the segment s global commodities operations.

Corporate and Other operations resulted in an increased loss for 2010 as compared to 2009 primarily due to increased interest expense, reflecting a greater level of capital debt, as well as less favorable results from corporate hedging activities and a higher level of expenses in other corporate activities, partially offset by improved results in our real estate and relocation services business.

Realized investment gains (losses), net, and related charges and adjustments for the Financial Services Businesses in 2010 amounted to a loss of $72 million, primarily reflecting other-than-temporary impairments of fixed maturities partially offset by net realized investment gains from increases in the market value of derivatives primarily related to interest rate derivatives used to manage investment portfolio duration and net gains related to the embedded derivatives and related hedge positions associated with certain of our variable annuity contracts partially offset by the impact of foreign currency exchange rates.

Income (loss) from continuing operations before income taxes in the Closed Block Business increased $1,205 million in 2010 compared to 2009, primarily reflecting net realized investment gains in 2010, compared to losses in 2009, as well as an increase in net investment income, which were partially offset by an increase in the cumulative earnings policyholder dividend obligation expense.

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Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

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

The following sections discuss the accounting policies applied in preparing our financial statements that management believes are most dependent on the application of estimates and assumptions and require management s most difficult, subjective, or complex judgments.

Deferred Policy Acquisition and Other Costs

We capitalize costs that vary with and are related primarily to the acquisition of new and renewal insurance and annuity contracts. These costs primarily include commissions, costs of policy issuance and underwriting, and variable field office expenses that are incurred in producing new business. In addition, we also defer costs associated with sales inducements related to our variable and fixed annuity contracts primarily within our Individual Annuities segment. Sales inducements are amounts that are credited to the policyholder s account balance as an inducement to purchase the contract. For additional information about sales inducements, see Note 11 to the Consolidated Financial Statements. We amortize these deferred policy acquisition costs, or DAC, and deferred sales inducements, or DSI, over the expected lives of the contracts, based on our estimates of the level and timing of gross margins, gross profits, or gross premiums, depending on the type of contract. As described in more detail below, in calculating DAC and DSI amortization, we are required to make assumptions about investment returns, mortality, persistency, and other items that impact our estimates of the level and timing of gross margins, gross profits, or gross premiums. As of December 31, 2010, DAC and DSI in our Financial Services Businesses were \$15.7 billion and \$1.3 billion, respectively, and DAC in our Closed Block Business was \$763 million.

Amortization methodologies

DAC associated with the traditional participating products of our Closed Block Business is amortized over the expected lives of those contracts in proportion to estimated gross margins. Gross margins consider premiums, investment returns, benefit claims, costs for policy administration, changes in reserves, and dividends to policyholders. We evaluate our estimates of future gross margins and adjust the related DAC balance with a corresponding charge or credit to current period earnings for the effects of actual gross margins and changes in our expected future gross margins. We also evaluate the recoverability of the DAC balance at the end of each reporting period. Many of the factors that affect gross margins are included in the determination of our dividends to these policyholders. DAC adjustments generally have not created significant volatility in our results of operations since, during most years, the Closed Block has recognized a cumulative policyholder dividend obligation expense in Policyholders dividends, for the excess of actual cumulative earnings over expected cumulative earnings as determined at the time of demutualization. However, if actual cumulative earnings fall below expected cumulative earnings in future periods, thereby eliminating the cumulative policyholder dividend obligation expense, changes in gross margins and DAC amortization could result in greater volatility in the Closed Block Business results of operations. As of December 31, 2010, the excess of actual cumulative earnings over the expected cumulative earnings was \$126 million.

DAC associated with the non-participating whole life and term life policies of our Individual Life segment and the non-participating whole life, term life, endowment and health policies of our International Insurance segment is amortized in proportion to gross premiums. We evaluate the recoverability of our DAC related to these policies as part of our premium deficiency testing. If a premium deficiency exists, we reduce DAC by the amount of the deficiency or to zero through a charge to current period earnings. If the deficiency is more than the DAC balance, we then increase the reserve for future policy benefits by the excess, by means of a charge to current period earnings. Generally, we do not expect significant deterioration in future experience, and therefore do not expect significant writedowns to the related DAC.

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DAC and DSI associated with the variable and universal life policies of our Individual Life and International Insurance segments and the variable and fixed annuity contracts of our Individual Annuities and International Insurance segments are amortized over the expected life of these policies in proportion to gross profits. DAC and DSI are also subject to recoverability testing which we perform at the end of each reporting period to ensure that each balance does not exceed the present value of estimated gross profits. In calculating gross profits, we consider mortality, persistency, and other elements as well as rates of return on investments associated with these contracts and the costs related to our guaranteed minimum death and guaranteed minimum income benefits. Total gross profits include both actual experience and estimates of gross profits for future periods. We regularly evaluate and adjust the related DAC and DSI balances with a corresponding charge or credit to current period earnings for the effects of our actual gross profits and changes in our assumptions regarding estimated future gross profits. Adjustments to the DAC and DSI balances include the impact to our estimate of total gross profits of the annual review of assumptions, our quarterly adjustments for current period experience, and our quarterly adjustments for market performance. Each of these adjustments is further discussed below in Annual assumptions review and quarterly adjustments.

In addition to the gross profit components mentioned above, we also include the impact of the embedded derivatives associated with certain of the optional living benefit features of our variable annuity contracts and related hedging activities in actual gross profits used as the basis for calculating current period amortization. Historically, we also included the impact of these embedded derivatives and related hedging activities, excluding the impact of the market-perceived risk of our own non-performance, in our estimate of total gross profits used to determine the DAC and DSI amortization rates. In the third quarter of 2010, we revised our hedging strategy, which resulted in a change in how certain gross profit components are used to determine the DAC and DSI amortization rates. Historically, as part of our hedging strategy, we sought to generally match the sensitivities of the embedded derivative liability as defined by GAAP, excluding the impact of the market-perceived risk of our own non-performance, with capital market derivatives and options. Under our new hedging strategy, our hedge target continues to be grounded in a GAAP/capital markets valuation framework but incorporates modifications to the risk-free return assumption to account for the fact that the underlying customer separate account funds which support these living benefits are invested in assets that contain risk. The modifications include the removal of a volatility risk margin embedded in the valuation technique used to fair value the embedded derivative liability under GAAP, and the inclusion of a credit spread over the risk-free rate used to estimate future growth of bond investments in the customer separate account funds. For a discussion of the change in our hedging strategy and the results of our hedging program, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities Net impact of embedded derivatives related to our living benefit features and related hedge positions.

As mentioned above, this change in our hedging strategy also led to a change in the components included in our estimate of total gross profits used to determine the DAC and DSI amortization rates. As of the third quarter of 2010, management s best estimate of the total gross profits associated with these optional living benefit features and related hedge positions is based on the updated hedge target definition as described above. However, total gross profits for these purposes includes the difference between the value of the hedge target liability and asset value only to the extent this net amount is determined by management to be other than temporary, as well as the impact of assumption updates on the valuation of the hedge target liability. The determination of whether the difference between the value of the hedge target liability and asset value is other-than-temporary is based on an evaluation of the effectiveness of the hedge program. Management generally expects differences between the value of the hedge target liability and asset value to be temporary and to reverse over time. Such differences would not be included in total gross profits for purposes of determining the amortization rates. However, based on the effectiveness of the hedge program, management may determine that the difference between the value of the hedge target liability and the asset value is other-than-temporary and would include that amount in management s best estimate of total gross profits for setting the DAC and DSI amortization rates. Management may also decide to temporarily hedge to an amount that differs from the target hedge definition, given overall capital considerations of the Company and prevailing market conditions. The impact from temporarily hedging to an amount that differs from the hedge target definition, as well as the results of the capital hedge program we began in the second quarter of 2009 and modified in 2010, are not considered in calculating total gross profits used to determine amortization rates nor included in actual gross profits used in calculating current period amortization.

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Annual assumptions review and quarterly adjustments

Annually, during the third quarter, we perform a comprehensive review of the assumptions used in estimating gross profits for future periods. Although we review these assumptions on an ongoing basis throughout the year, we generally only update these assumptions and adjust the DAC and DSI balances during the third quarter, unless a material change that we feel is indicative of a long term trend is observed in an interim period. Over the last several years, the Company s most significant assumption updates resulting in a change to expected future gross profits and the amortization of DAC and DSI have been related to lapse experience and other contractholder behavior assumptions, mortality, and revisions to expected future rates of returns on investments. We expect these assumptions to be the ones most likely to cause potential significant changes in the future. The impact on our results of operations of changes in these assumptions can be offsetting and we are unable to predict their movement or offsetting impact over time.

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

The quarterly adjustments for market performance referred to above reflect the impact of changes to our estimate of total gross profits to reflect actual fund performance. A significant portion of gross profits for our variable annuity contracts and, to a lesser degree, our variable life policies are dependent upon the total rate of return on assets held in separate account investment options. This rate of return influences the fees we earn, costs we incur associated with the guaranteed minimum death and guaranteed minimum income benefit features related to our variable annuity contracts, as well as other sources of profit. Returns that are higher than our expectations for a given period produce higher than expected account balances, which increase the fees we earn and decrease the costs we incur associated with the guaranteed minimum death and guaranteed minimum income benefit features related to our variable annuity contracts, resulting in higher expected future gross profits and lower DAC and DSI amortization for the period. The opposite occurs when returns are lower than our expectations.

The near-term future rate of return assumptions used in evaluating DAC and DSI for our domestic variable annuity and variable life insurance products are derived using a reversion to the mean approach, a common industry practice. Under this approach, we consider actual returns over a period of time and initially adjust future projected returns over a four year period so that the assets grow at the long-term expected rate of return for the entire period. If the projected future rate of return over the four year period is greater than our maximum future rate of return, we use our maximum future rate of return. As of December 31, 2010, our long-term expected rates of return across all asset types for variable annuity contracts and variable life policies range from 7.4% to 7.8% per annum, depending on the specific block of business, and reflect, among other assumptions, an expected rate of return of 9.3% per annum for equity type assets and a 5.7% annual weighted average rate of return on fixed income investments. Unless there is a sustained interim deviation, our long-term expected rate of return assumptions generally are not impacted by short-term market fluctuations. As of December 31, 2010, our near-term maximum future rate of return under the reversion to the mean approach for variable annuity contracts and variable life policies was 9.6% and 9.8% per annum, respectively. Included in this blended maximum future rate are assumptions for returns on various asset classes, including a 13% annual maximum rate of return on equity investments and a 5.7% annual weighted average rate of return on fixed income investments.

We update the projected future rate of return and our estimate of total gross profits each quarter to reflect the result of the reversion to the mean approach. These market performance related adjustments to our estimate of total gross profits result in cumulative adjustments to prior amortization, reflecting the application of the new required rate of amortization to all prior periods gross profits. The new required rate of amortization is also applied prospectively to future gross profits in calculating amortization in future periods. For domestic variable annuities contracts and domestic variable life policies, as of December 31, 2010, our expected rate of return for the next four years across all asset types is 7.1% and 8.6% per annum, respectively. These rates represent a weighted average of our expected rates of return across all contract groups. For some contract groups, our expected rate of return for the next four years equals our current maximum future rates of return, as the near-term

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projected future rate of return under the reversion to the mean approach is greater than our maximum future rate of return. For certain contract groups relating to variable annuities issued in 2009 and 2010, the expected rate of return over the next four years is under 7.1% per annum, reflecting the impact of more favorable markets in 2009 and 2010 and the reversion to the mean approach.

Sensitivity

For the variable and universal life policies of our Individual Life segment, a significant portion of our gross profits is derived from mortality margins. As a result, our estimates of future gross profits are significantly influenced by our mortality assumptions. Our mortality assumptions represent our expected claims experience over the life of these policies and are developed based on Company experience or standard industry tables. Unless a material change in mortality experience that we feel is indicative of a long term trend is observed in an interim period, we generally update our mortality assumptions annually in the third quarter. Updates to our mortality assumptions in future periods could have a significant adverse or favorable effect on the results of our operations in the Individual Life segment. For the variable and universal life policies in our International Insurance segment, mortality assumptions impact to a lesser extent our estimates of future gross profits due to differences in policyholder demographics, the overall age of this block of business, the amount of mortality margins and our actual mortality experience.

The DAC balance associated with the variable and universal life policies of our Individual Life segment as of December 31, 2010 was $2.7 billion. The following table provides a demonstration of the sensitivity of that DAC balance relative to our future mortality assumptions by quantifying the adjustments that would be required, assuming both an increase and decrease in our future mortality rate by 1%. While the information below is for illustrative purposes only and does not reflect our expectations regarding future mortality assumptions, it is a near-term, reasonably likely hypothetical change that illustrates the potential impact of such a change. This information considers only the direct effect of changes in our mortality assumptions on the DAC balance and not changes in any other assumptions such as persistency, future rate of return, or expenses included in our evaluation of DAC, and does not reflect changes in reserves, such as the unearned revenue reserve, which would partially offset the adjustments to the DAC balance reflected below. The impact of the unearned revenue reserve is discussed in more detail below in Policyholder Liabilities.

	December 31, 2010 Increase/(Reduction) in DAC (in millions)	
Decrease in future mortality by 1%	$	44
Increase in future mortality by 1%	$	(45)

For a discussion of DAC adjustments related to our Individual Life segment for the years ended December 31, 2010, 2009 and 2008, see Results of Operations for Financial Services Businesses by Segment U.S. Individual Life and Group Insurance Division Individual Life.

For variable annuity contracts, DAC and DSI are more sensitive to changes in our future rate of return assumptions due primarily to the significant portion of our gross profits that is dependent upon the total rate of return on assets held in separate account investment options, and the shorter average life of the contracts. The DAC and DSI balances associated with our domestic variable annuity contracts were $3.4 billion and $1.3 billion, respectively, as of December 31, 2010. The following table provides a demonstration of the sensitivity of each of these balances relative to our future rate of return assumptions by quantifying the adjustments to each balance that would be required assuming both an increase and decrease in our future rate of return by 100 basis points. The sensitivity includes an increase and decrease of 100 basis points to both the near-term future rate of return assumptions used over the next four years, and the long-term expected rate of return used thereafter. While the information below is for illustrative purposes only and does not reflect our expectations regarding future rate of return assumptions, it is a near-term, reasonably likely hypothetical change that illustrates the potential impact of such a change. This information considers only the direct effect of changes in our future rate of return on the DAC and DSI balances and not changes in any other assumptions such as persistency, mortality, or expenses included in our evaluation of DAC and DSI. Further, this information does not reflect changes in reserves, such

as the reserves for the guaranteed minimum death and optional living benefit features of our variable annuity products, or the impact that changes in such reserves may have on the DAC and DSI balances.

	December 31, 2010	
	Increase/(Reduction) in DAC	Increase/(Reduction) in DSI
	(in millions)	
Decrease in future rate of return by 100 basis points	$ (57)	$ (19)
Increase in future rate of return by 100 basis points	$ 57	$ 19

For a discussion of DAC and DSI adjustments related to our Individual Annuities segment for the years ended December 31, 2010, 2009 and 2008, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

Valuation of Business Acquired

In addition to DAC and DSI, we also recognize an asset for valuation of business acquired, or VOBA. As of December 31, 2010, VOBA was $484 million, all within our Financial Services Businesses. VOBA represents the present value of future profits embedded in acquired businesses, and is determined by estimating the net present value of future cash flows from the contracts in force at the date of acquisition. We have established a VOBA asset primarily for our acquired traditional life, deferred annuity, defined contribution and defined benefit businesses. VOBA is amortized over the effective life of the acquired contracts. For additional information about VOBA including details on items included in our estimates of future cash flows for the various acquired businesses and its bases for amortization, see Note 2 and Note 8 to the Consolidated Financial Statements. VOBA is also subject to recoverability testing at the end of each reporting period to ensure that the balance does not exceed the present value of anticipated gross profits. Based on this recoverability testing, in 2009 we impaired the entire remaining VOBA asset related to the variable annuity contracts acquired from Allstate. For additional information regarding this charge, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

Goodwill

We test goodwill for impairment on an annual basis as of December 31 of each year and more frequently if events occur or circumstances change that would indicate the potential for impairment is more likely than not. The test is performed at the reporting unit level which is equal to or one level below our operating segments. Reporting units that had goodwill subject to testing as of December 31, 2010 were the Asset Management segment, the International Insurance segment s Life Planners business and the Retirement segment s Full Service business.

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

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

The fair value of reporting units calculated in Step 1 was determined using either an earnings multiple approach or a discounted cash flow approach. The earnings multiple approach was the primary approach for the Asset Management and International Insurance reporting units. The discounted cash flow approach was primarily utilized by the Retirement reporting unit. Earnings multiples used ranged from 6.3 to 13.2 times earnings while the discount rate used was 12%.

The earnings multiple approach indicates the value of a business based on comparison to publicly-traded comparable companies in similar lines of business. Each comparable company is analyzed based on various factors, including, but not limited to, financial risk, size, geographic diversification, profitability, adequate financial data, and an actively traded stock price. A multiple of price to earnings is developed for the comparable companies using independent analysts consensus estimates for each company s 2011 forecasted earnings. The multiple is then applied to the 2011 forecasted earnings of the reporting unit to develop a value. A control premium is then added to determine a total estimated fair value for the reporting unit.

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

After completion of Step 1 of the analysis, it was determined that fair value exceeded the carrying value for each of the three reporting units and it was concluded there was no impairment as of December 31, 2010. The Asset Management and International Insurance Life Planner businesses had estimated fair values that exceeded their carrying values by 437% and 13%, respectively. The fair value of the Retirement Full Service business, which was calculated based upon application of the discounted cash flow approach utilizing a discount rate of 12%, exceeded the carrying value by 24%. As of December 31, 2010, we had a total goodwill balance of $707 million, including $444 million related to our Retirement reporting unit, $239 million related to our Asset Management reporting unit, and $24 million related to our International Insurance reporting unit. Further market declines or other events impacting the fair value of these businesses, or increases in the level of equity required to support these businesses, could result in goodwill impairments, resulting in a charge to income.

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

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

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, equity securities, other invested assets, and derivative financial instruments. Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices or the values of securities or commodities. Derivative financial instruments we generally use include swaps, futures, forwards and options and may be exchange-traded or contracted in the over-the-counter market. We are also party to financial instruments that contain derivative instruments that are embedded in the financial instruments. Management believes the following accounting policies related to investments, including derivatives, are most dependent on the application of estimates and assumptions. Each of these policies is discussed further within other relevant disclosures related to the investments and derivatives, as referenced below.

Valuation of investments, including derivatives

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Recognition of other-than-temporary impairments

Determination of the valuation allowance for losses on commercial mortgage and other loans

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

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

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

For a discussion of our investment portfolio, including the gross unrealized gains and losses as of December 31, 2010, related to the fixed maturity and equity securities of our general account, and the carrying value, credit quality, and allowance for losses related to the commercial mortgage and other loans of our general account, see Realized Investment Gains and Losses and General Account Investments General Account Investments. For a discussion of the effects of impairments and changes to the valuation allowance for commercial mortgage and other loans on our operating results for the years ended December 31, 2010, 2009 and 2008, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.

Policyholder Liabilities

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

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

The future policy benefit reserves for the traditional participating life insurance products of our Closed Block Business, which as of December 31, 2010, represented 39% of our total future policy benefit reserves are determined using the net level premium method as prescribed by U.S. GAAP. Under this method, the future policy benefit reserves are accrued as a level proportion of the premium paid by the policyholder. In applying this method, we use mortality assumptions to determine our expected future benefits and expected future premiums, and apply an interest rate to determine the present value of both the expected future benefit payments and the expected future premiums. The mortality assumptions used are based on data from the standard industry mortality tables that were used to determine the cash surrender value of the policies, and the interest rates used are the contractually guaranteed interest rates used to calculate the cash surrender value of the policy. Gains or losses in our results of operations resulting from deviations in actual experience compared to the experience assumed in establishing our reserves for this business are recognized in the determination of our annual dividends to these policyholders. These gains or losses generally have not created significant volatility in our results of operations since, during most years, the Closed Block has recognized a cumulative policyholder dividend obligation expense in Policyholders dividends, for the excess of actual cumulative earnings over expected cumulative earnings as determined at the time of demutualization. However, if actual cumulative earnings fall below expected cumulative earnings in future periods, thereby eliminating the cumulative policyholder dividend obligation expense, these gains or losses could result in greater volatility in the Closed Block Business results of operations. As of December 31, 2010, the excess of actual cumulative earnings over the expected cumulative earnings was $126 million.

The future policy benefit reserves for our International Insurance segment and Individual Life segment, which as of December 31, 2010, represented 45% of our total future policy benefit reserves combined, relate primarily to non-participating whole life and term life products and are determined in accordance with U.S. GAAP as the present value of expected future benefits to or on behalf of policyholders plus the present value of future maintenance expenses less the present value of future net premiums. The expected future benefits and expenses are determined using assumptions as to mortality, lapse, and maintenance expense. Reserve assumptions are based on best estimate assumptions as of the date the policy is issued with provisions for the risk of adverse deviation. After our reserves are initially established, we perform premium deficiency tests using best estimate assumptions as of the testing date without provisions for adverse deviation. If reserves determined based on these best estimate assumptions are greater than the net U.S. GAAP liabilities (i.e., reserves net of any DAC asset), the existing net U.S. GAAP liabilities are adjusted to the greater amount. Our best estimate assumptions are determined by product group. Mortality assumptions are generally based on the Company s historical experience or standard industry tables, as applicable; our expense assumptions are based on current levels of maintenance costs, adjusted for the effects of inflation; and our interest rate assumptions are based on current and expected net investment returns. Unless a material change in mortality experience is observed in an interim period that we feel is indicative of a long term trend, we generally update our mortality assumptions annually in the third quarter of each year. Generally, we do not expect our mortality trends to change significantly in the short-term and to the extent these trends may change we expect such changes to be gradual over the long-term.

The reserves for future policy benefits of our Retirement segment, which as of December 31, 2010 represented 11% of our total future policy benefit reserves, relate to our non-participating life contingent group annuity and structured settlement products. These reserves are generally determined as the present value of expected future benefits and expenses based on assumptions as to mortality, retirement, maintenance expense, and interest rates. Reserves are based on best estimate assumptions as of the date the contract is issued with provisions for the risk of adverse deviation. After our reserves are initially established, we perform premium deficiency testing by product group using best estimate assumptions as of the testing date without provisions for adverse deviation. If reserves determined based on these assumptions are greater than the existing reserves, the existing reserves are adjusted to the greater amount. Our best estimate assumptions are determined by product group. Our mortality and retirement assumptions are based on Company or industry experience; our expense assumptions are based on current levels of maintenance costs, adjusted for the effects of inflation; and our interest rate assumptions are based on current and expected net investment returns. Although we review our mortality and retirement assumptions on an ongoing basis throughout the year, we generally only updates these assumptions annually during the third quarter unless a material change in mortality or retirement experience is observed in an interim period that we feel is indicative of a long term trend. Generally, we do not expect our actual mortality or retirement trends to change significantly in the short-term and to the extent these trends may change we expect such changes to be gradual over the long-term.

The remaining 5% of the reserves for future policy benefits as of December 31, 2010 represented reserves for the guaranteed minimum death and optional living benefit features of the variable annuity products in our Individual Annuities segment, and group life and disability and long-term care benefits in our Group Insurance segment. The optional living benefits are primarily accounted for as embedded derivatives, with fair values calculated as the present value of future expected benefit payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. For additional information regarding the valuation of these optional living benefit features, see Note 20 to the Consolidated Financial Statements and Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Variable Annuity Optional Living Benefit Features.

In establishing reserves for guaranteed minimum death and income benefits related to variable annuity contracts, we must make estimates and assumptions about the timing of annuitization, contract lapses and contractholder mortality, as well as interest rates and equity market returns. Assumptions relating to contractholder behavior, such as the timing of annuitization and contract lapses, are based on our experience by contract group, and vary by product type and year of issuance. Our dynamic lapse rate assumption applies a different lapse rate on a contract by contract basis based on a comparison of the guaranteed minimum death or income benefit and the current policyholder account value as well as other factors such as the applicability of any surrender charges. In-the-money contracts are those with a guaranteed minimum benefit in excess of the current policyholder account value. Since in-the-money contracts are less likely to lapse, we apply a lower lapse rate assumption to these contracts. As an example, the lapse rate assumptions for contracts that are not in-the-money and are out of their surrender charge period average between 8% and 20% per year, and the lapse rate assumptions for contracts that are in-the-money and are out of their surrender charge period average between 0% and 20% per year. Mortality assumptions are generally based on our historical experience or standard industry tables, and also vary by contract group. Unless a material change in contractholder behavior or mortality experience that we feel is indicative of a long term trend is observed in an interim period, we generally update assumptions related to contractholder behavior and mortality in the third quarter of each year by considering the actual results that have occurred during the period from the most recent update to the expected amounts. Over the last several years, the Company s most significant assumption updates that have resulted in changes to our reserves for guaranteed minimum death and income benefits have been related to lapse experience and other contractholder behavior assumptions and revisions to expected future rates of returns on investments. The Company expects these assumptions to be the ones most likely to cause significant changes in the future. Changes in these assumptions can be offsetting and can also impact our DAC and other balances as discussed above. Generally, we do not expect our actual mortality trends to change significantly in the short-term, and to the extent these trends may change we expect such changes to be gradual over the long-term.

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

	December 31, 2010 Increase/(Reduction) in GMDB/GMIB Reserves (in millions)
Decrease in future rate of return by 100 basis points	$ 94
Increase in future rate of return by 100 basis points	$ (73)

For a discussion of adjustments to the reserves for guaranteed minimum death and income benefits related to our Individual Annuities segment for the years ended December 31, 2010, 2009 and 2008, see Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

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Unpaid claims and claim adjustment expenses

Our liability for unpaid claims and claim adjustment expenses of $2.5 billion as of December 31, 2010 is reported as a component of Future policy benefits and relates primarily to the group long-term disability products of our Group Insurance segment. This liability represents our estimate of future disability claim payments and expenses as well as estimates of claims that we believe have been incurred, but have not yet been reported as of the balance sheet date. We do not establish loss liabilities until a loss has occurred. As prescribed by U.S. GAAP, our liability is determined as the present value of expected future claim payments and expenses. Expected future claims payments are estimated using assumed mortality and claim termination factors and an assumed interest rate. The mortality and claim termination factors are based on standard industry tables and the Company s historical experience. Our interest rate assumptions are based on factors such as market conditions and expected investment returns. Of these assumptions, our claim termination assumptions have historically had the most significant effect on our level of liability. We review our claim termination assumptions compared to actual terminations annually. These studies review actual claim termination experience over a number of years with more weight placed on the actual experience in the more recent years. Recently, our claim termination experience has been impacted by increased volatility driven by the economic downturn. If actual experience results in a different assumption, we adjust our liability for unpaid claims and claims adjustment expenses accordingly with a charge or credit to current period earnings.

Unearned revenue reserves for universal life and investment contracts

Our unearned revenue reserve, or URR, reported as a component of Policyholders account balances, is $1.5 billion as of December 31, 2010. This reserve primarily relates to variable and universal life products within our Individual Life segment and represents policy charges for services to be provided in future periods. The charges are deferred as unearned revenue and amortized over the expected life of the contract in proportion to the product s estimated gross profits, similar to DAC as discussed above.

For the variable and universal life policies of our Individual Life segment, a significant portion of our gross profits is derived from mortality margins. As a result, our estimates of future gross profits are significantly influenced by our mortality assumptions. Our mortality assumptions represent our expected claims experience over the life of these policies and are developed based on Company experience or standard industry tables. Unless a material change in mortality experience that we feel is indicative of a long term trend is observed in an interim period, we generally update our mortality assumptions annually in the third quarter. Updates to our mortality assumptions in future periods could have a significant adverse or favorable effect on the results of our operations in the Individual Life segment.

The URR balance associated with the variable and universal life policies of our Individual Life segment as of December 31, 2010 was $1.1 billion. The following table provides a demonstration of the sensitivity of that URR balance relative to our future mortality assumptions by quantifying the adjustments that would be required, assuming both an increase and decrease in our future mortality rate by 1%. While the information below is for illustrative purposes only and does not reflect our expectations regarding future mortality assumptions, it is a near-term, reasonably likely hypothetical change that illustrates the potential impact of such a change on the URR balance and does not reflect the offsetting impact of such a change on the DAC balance as discussed above in Deferred Policy Acquisition and Other Costs. This information considers only the direct effect of changes in our mortality assumptions on the URR balance and not changes in any other assumptions such as persistency, future rate of return, or expenses included in our evaluation of URR.

	December 31, 2010 Increase/(Reduction) in URR (in millions)
Decrease in future mortality by 1%	$ 26
Increase in future mortality by 1%	$ (27)

For a discussion of URR adjustments related to our Individual Life segment for the years ended December 31, 2010, 2009, and 2008, see Results of Operations for Financial Services Businesses by Segment U.S. Individual Life and Group Insurance Division Individual Life.

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Pension and Other Postretirement Benefits

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

We determine our expected rate of return on plan assets based upon a building block approach that considers inflation, real return, term premium, credit spreads, equity risk premium and capital appreciation as well as expenses, expected asset manager performance and the effect of rebalancing for the equity, debt and real estate asset mix applied on a weighted average basis to our pension asset portfolio. See Note 18 to our Consolidated Financial Statements for our actual asset allocations by asset category and the asset allocation ranges prescribed by our investment policy guidelines for both our pension and other postretirement benefit plans. Our assumed long-term rate of return for 2010 was 7.50% for our pension plans and 7.50% for our other postretirement benefit plans. Given the amount of plan assets as of December 31, 2009, the beginning of the measurement year, if we had assumed an expected rate of return for both our pension and other postretirement benefit plans that was 100 basis points higher or 100 basis points lower than the rates we assumed, the change in our net periodic costs would have been as shown in the table below. The information provided in the table below considers only changes in our assumed long-term rate of return given the level and mix of invested assets at the beginning of the measurement year, without consideration of possible changes in any of the other assumptions described above that could ultimately accompany any changes in our assumed long-term rate of return.

	For the year ended December 31, 2010	
	Increase/(Decrease) in Net Periodic Pension Cost	Increase/(Decrease) in Net Periodic Other Postretirement Cost
	(in millions)	
Increase in expected rate of return by 100 basis points	$ (98)	$ (14)
Decrease in expected rate of return by 100 basis points	$ 98	$ 14

We determine our discount rate, used to value the pension and postretirement benefit obligations, based upon rates commensurate with current yields on high quality corporate bonds. See Note 18 to our Consolidated Financial Statements for information regarding the December 31, 2009 methodology we employed to determine our discount rate for 2010. Our assumed discount rate for 2010 was 5.75% for our pension plans and 5.50% for our other postretirement benefit plans. Given the amount of pensions and postretirement obligation as of December 31, 2009, the beginning of the measurement year, if we had assumed a discount rate for both our pension and other postretirement benefit plans that was 100 basis points higher or 100 basis points lower than the rates we assumed, the change in our net periodic costs would have been as shown in the table below. The information provided in the table below considers only changes in our assumed discount rate without consideration of possible changes in any of the other assumptions described above that could ultimately accompany any changes in our assumed discount rate.

	For the year ended December 31, 2010	
	Increase/(Decrease) in Net Periodic Pension Cost	Increase/(Decrease) in Net Periodic Other Postretirement Cost
	(in millions)	
Increase in discount rate by 100 basis points	$ (2)	$ (5)
Decrease in discount rate by 100 basis points	$ 49	$ 3

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

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At December 31, 2010, we changed our method for determining the discount rate from a yield curve cashflow matching approach to a bond selection/settlement approach. See Note 18 to our Consolidated Financial Statements for information regarding the December 31, 2010 methodology.

For a discussion of our expected rate of return on plan assets and discount rate for our qualified pension plan in 2011, see Results of Operations for Financial Services Businesses by Segment Corporate and Other.

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

At December 31, 2010, the sensitivity of our pension and postretirement obligations to a 100 basis point change in discount rate was as follows:

	December 31, 2010	
	Increase/(Decrease) in Pension Benefits Obligation	Increase/(Decrease) in Accumulated Postretirement Benefits Obligation
Increase in discount rate by 100 basis points	(10)%	(8)%
Decrease in discount rate by 100 basis points	11%	9%

Taxes on Income

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

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

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

In 2010, the Company increased the valuation allowance against the state and local deferred tax assets for certain non-insurance subsidiaries. The increase of $29 million to the valuation allowance relates to deferred tax assets established in 2010 and prior years.

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Our accounting represents management s best estimate of future events that can be appropriately reflected in the accounting estimates. Certain changes or future events, such as changes in tax legislation, geographic mix of earnings and completion of tax audits could have an impact on our estimates and effective tax rate. For example, the dividends received deduction, or DRD, reduces the amount of dividend income subject to tax and is a significant component of the difference between our actual tax expense and the expected amount determined using the federal statutory tax rate of 35%. The U.S. Treasury Department and the Internal Revenue Service, or IRS, intend to address through regulations the methodology to be followed in determining the DRD related to variable life insurance and annuity contracts. On February 14, 2011, the Obama Administration released the General Explanations of the Administration s Revenue Proposals. Although the Administration has not released proposed statutory language, one proposal would change the method used to determine the amount of the DRD. A change in the DRD, including the possible retroactive or prospective elimination of this deduction through regulation or legislation, could increase our actual tax expense and reduce our consolidated net income.

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

An increase or decrease in our effective tax rate by one percent of income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures, would have resulted in an increase or decrease in our consolidated income from continuing operations before equity in earnings of operating joint ventures in 2010 of $44 million.

Our liability for income taxes includes the liability for unrecognized tax benefits, interest and penalties which relate to tax years still subject to review by the IRS or other taxing authorities. Audit periods remain open for review until the statute of limitations has passed. Generally, for tax years which produce net operating losses, capital losses or tax credit carryforwards, or tax attributes, the statute of limitations does not close, to the extent of these tax attributes, until the expiration of the statute of limitations for the tax year in which they are fully utilized. The completion of review or the expiration of the statute of limitations for a given audit period could result in an adjustment to our liability for income taxes. The statute of limitations for the 2002 tax year expired on April 30, 2009. The statute of limitations for the 2003 tax year expired on July 31, 2009. The statute of limitations for the 2004 through 2007 tax years will expire in February 2012, unless extended. Tax years 2008 and 2009 are still open for IRS examination. See Note 19 to the Consolidated Financial Statements for a discussion of the impact in 2009 of changes to our total unrecognized tax benefits related to tax years for which the statute of limitations has expired.

The Company s affiliates in Japan as well as Korea file separate tax returns and are subject to audits by the local taxing authority. The general statute of limitations for Japan and Korea are five years from when the return is filed.

We do not anticipate any significant changes within the next 12 months to our total unrecognized tax benefits related to tax years for which the statute of limitations has not expired.

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

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Reserves for Contingencies

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

Adoption of New Accounting Pronouncements

See Note 2 to our Consolidated Financial Statements for a discussion of recently adopted accounting pronouncements, including the adoption of updated authoritative guidance for disclosures related to the allowance for credit losses and the credit quality of a company s financing receivable portfolio, fair value disclosures, consolidation of variable interest entities, and accounting for the transfer of financial assets.

Future Adoption of New Accounting Pronouncements

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

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Consolidated Results of Operations

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

	Year ended December 31,		
	2010	2009	2008
		(in millions)	
Financial Services Businesses by segment:			
Individual Annuities	$ 1,019	$ 621	$ (1,218)
Retirement	687	376	(1,109)
Asset Management	529	9	300
Total U.S. Retirement Solutions and Investment Management Division	2,235	1,006	(2,027)
Individual Life	461	696	(173)
Group Insurance	193	97	138
Total U.S. Individual Life and Group Insurance Division	654	793	(35)
International Insurance	1,657	1,111	1,923
International Investments	(5)	(17)	(68)
Total International Insurance and Investments Division	1,652	1,094	1,855
Corporate and Other	(844)	(861)	(1,035)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	3,697	2,032	(1,242)
Income tax expense (benefit)	1,065	139	(510)
Income (loss) from continuing operations before equity in earnings of operating joint ventures for Financial Services Businesses	2,632	1,893	(732)
Equity in earnings of operating joint ventures, net of taxes	84	1,523	(447)
Income (loss) from continuing operations for Financial Services Businesses	2,716	3,416	(1,179)
Income (loss) from discontinued operations, net of taxes	9	(39)	75
Net income (loss) Financial Services Businesses	2,725	3,377	(1,104)
Less: Income (loss) attributable to noncontrolling interests	11	(34)	36
Net income (loss) of Financial Services Businesses attributable to Prudential Financial, Inc.	$ 2,714	$ 3,411	$ (1,140)
Basic income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Common Stock	$ 5.80	$ 7.77	$ (2.70)
Diluted income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Common Stock	$ 5.73	$ 7.72	$ (2.70)
Basic net income (loss) attributable to Prudential Financial, Inc. per share Common Stock	$ 5.82	$ 7.68	$ (2.53)
Diluted net income (loss) attributable to Prudential Financial, Inc. per share Common Stock	$ 5.75	$ 7.63	$ (2.53)
Closed Block Business:			
Income (loss) from continuing operations before income taxes for Closed Block Business	$ 725	$ (480)	$ 16
Income tax expense (benefit)	245	(193)	(7)
Income (loss) from continuing operations for Closed Block Business	480	(287)	23
Income from discontinued operations, net of taxes	1	0	0
Net income (loss) Closed Block Business	481	(287)	23
Less: Income attributable to noncontrolling interests	0	0	0
Net income (loss) of Closed Block Business attributable to Prudential Financial, Inc.	$ 481	$ (287)	$ 23

Basic and diluted income (loss) from continuing operations attributable to Prudential Financial, Inc. per share Class B Stock	$ 222.00	$ (165.00)	$ (16.00)
Basic and diluted net income (loss) attributable to Prudential Financial, Inc. per share Class B Stock	$ 222.50	$ (165.00)	$ (16.00)
Consolidated:			
Net income (loss) attributable to Prudential Financial, Inc.	$ 3,195	$ 3,124	$ (1,117)

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Results of Operations Financial Services Businesses

2010 to 2009 Annual Comparison. Income from continuing operations for the Financial Services Businesses decreased $700 million, from $3,416 million in 2009 to $2,716 million in 2010. Results in 2009 include a $1,457 million after tax gain on the sale of our minority joint venture interest in Wachovia Securities to Wells Fargo. Absent the effect of this item, income from continuing operations for the Financial Services Businesses for 2010 increased $757 million from 2009. Results in 2010 include net pre-tax gains associated with our general account portfolio and hedging programs, as compared to net pre-tax losses in 2009, reflecting the impact of financial market conditions in each period. In addition, results in the current year include a net increase in premiums and policy charges and fee income, largely offset by an increase in policyholders benefits, including changes in reserves, reflecting business growth, as well as the impact of currency fluctuations, in our International Insurance operations and higher life-contingent structured settlement and single premium annuity sales in our retirement business. Results in 2010 and 2009 also reflect increases in other income and benefits and expenses due to changes in value of recorded assets and liabilities that are expected to ultimately accrue to contractholders. On a diluted per share basis, income from continuing operations attributable to the Financial Services Businesses for 2010 of $5.73 per share of Common Stock decreased from $7.72 per share of Common Stock for 2009. We analyze the operating performance of the segments included in the Financial Services Businesses using adjusted operating income as described in Segment Measures, below. For a discussion of our segment results on this basis, see Results of Operations for Financial Services Businesses by Segment, below. In addition, for a discussion of the realized investment gains (losses), net attributable to the Financial Services Businesses, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses, below. For additional information regarding investment income, excluding realized investment gains (losses) see Realized Investment Gains and Losses and General Account Investments General Account Investments, below.

The direct equity adjustment increased income from continuing operations available to holders of the Common Stock for earnings per share purposes by $36 million for the year ended December 31, 2010, compared to $43 million for the year ended December 31, 2009. As described more fully in Note 16 to the Consolidated Financial Statements, the direct equity adjustment modifies earnings available to holders of the Common Stock and the Class B Stock for earnings per share purposes. The holders of the Common Stock will benefit from the direct equity adjustment as long as reported administrative expenses of the Closed Block Business are less than the cash flows for administrative expenses determined by the policy servicing fee arrangement that is based upon insurance and policies in force and statutory cash premiums. Generally, as statutory cash premiums and policies in force in the Closed Block Business decline, we expect the benefit to the Common Stock holders from the direct equity adjustment to decline accordingly. If the reported administrative expenses of the Closed Block Business exceed the cash flows for administrative expenses determined by the policy servicing fee arrangement, the direct equity adjustment will reduce income available to holders of the Common Stock for earnings per share purposes.

2009 to 2008 Annual Comparison. Income (loss) from continuing operations for the Financial Services Businesses increased $4,595 million, from a loss of $1,179 million in 2008 to income of $3,416 million in 2009. Results in 2009 include a $1,457 million after tax gain on the sale of our minority joint venture interest in Wachovia Securities to Wells Fargo. Also contributing to the increase in income was a favorable variance related to adjustments to the amortization of deferred policy acquisition and other costs and the reserves for our variable annuity products, largely reflecting improved market conditions in 2009. In addition, income reflects an increase in other revenues, partially offset by an increase in benefits and expenses, due to changes in value of recorded assets and recorded liabilities that are expected to ultimately accrue to contractholders. Results for the current year include a favorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with certain variable annuity products. This variance was largely driven by changes in our adjustment to the embedded derivative liabilities for market-perceived non-performance risk, and resulted in a related increase in the amortization of deferred policy acquisition and other costs. Income also includes a net increase in premiums and policy charges and fee income, largely offset by an increase in policyholders benefits, including changes in reserves, reflecting business growth, as well as the impact of currency fluctuations, in our International Insurance operations. On a diluted per share basis, income (loss) from continuing operations attributable to the Financial Services Businesses for the year ended December 31, 2009 of $7.72 per share of Common Stock increased from a loss of $(2.70) per share of Common Stock for the year ended December 31, 2008. We analyze the operating performance of the segments included in the Financial Services Businesses using adjusted operating income as described in Segment Measures, below. For a discussion of our segment results on this basis see Results of Operations for Financial Services Businesses by Segment, below. In addition, for a discussion of the realized investment gains (losses), net attributable to the Financial Services Businesses, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses, below. For additional information regarding investment income, excluding realized investment gains (losses) see Realized Investment Gains and Losses and General Account Investments General Account Investments, below.

The direct equity adjustment, as described above, increased income from continuing operations available to holders of the Common Stock for earnings per share purposes by $43 million for the year ended December 31, 2009, compared to $55 million for the year ended December 31, 2008.

Results of Operations Closed Block Business

2010 to 2009 Annual Comparison. Income (loss) from continuing operations for the Closed Block Business for the year ended December 31, 2010, was $480 million, or $222.00 per share of Class B Stock, compared to a loss of $287 million, or $(165.00) per share of Class B Stock, for the year ended December 31, 2009. The direct equity adjustment decreased income from continuing operations available to the Class B Stock holders for earnings per share purposes by $36 million for the year ended December 31, 2010, compared to $43 million for the year ended December 31, 2009. For a discussion of the results of operations for the Closed Block Business, see Results of Operations of Closed Block Business, below.

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

Segment Measures

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

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

Effective with the third quarter of 2010, we amended our definition of adjusted operating income as it relates to certain variable annuity contracts and defined contribution accounts that contain optional guaranteed living benefit features. Changes in the fair value of these optional living benefit features, which are accounted for as embedded derivatives, are primarily driven by changes in the policyholders account balance and changes in the capital market and policyholder behavior assumptions used in the valuation of the embedded derivatives, including equity market returns, interest rates, market volatility, benefit utilization, contract lapses, contractholder mortality, and withdrawal rates. The changes in fair value of the embedded derivative liabilities

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also reflect an increase or decrease in the market-perceived risk of our non-performance. We hedge or limit our exposure to certain risks associated with these living benefit features through a combination of product design elements and externally purchased hedging instruments. In addition, beginning in the second quarter of 2009, we expanded our hedging program to include a portion of the market exposure related to the overall capital position of the variable annuity business. During the second quarter of 2010, the equity component of the capital hedge within the variable annuity business was replaced with a new capital hedge program that more broadly addressed equity market exposure of the statutory capital within the Financial Services Businesses as a whole. Changes in the value of the embedded derivatives inclusive of the market-perceived risk of our non-performance, and the related hedge positions are reported in Realized investment gains (losses), net. Historically, adjusted operating income included the changes in fair value of these embedded derivatives and related hedge positions, in the period they occurred, and also included the related impact to amortization of deferred policy acquisition and other costs.

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

Adjusted operating income under the amended definition excludes net gains of $312 million, net gains of $2 million, and net losses of $216 million for the years ended December 31, 2010, 2009 and 2008, respectively, related to changes in the market value of the embedded derivatives and related hedge positions, and the related impact to amortization of deferred policy acquisition and other costs. Of the $312 million in net gains for the year ended December 31, 2010, net gains of $12 million and $2 million are reflected within the U.S. GAAP results of the Individual Annuities and Retirement segments, respectively, and net gains of $298 million are reflected within our Corporate and Other operations.

Results of Operations for Financial Services Businesses by Segment

U.S. Retirement Solutions and Investment Management Division

Individual Annuities

Operating Results

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

	Year ended December 31,		
	2010	2009	2008
	(in millions)		
Operating results:			
Revenues	$ 3,195	$ 2,515	$ 2,437
Benefits and expenses	2,149	1,758	3,327

Adjusted operating income	1,046	757	(890)
Realized investment gains (losses), net, and related adjustments(1)	120	416	(591)
Related charges(1)(2)	(147)	(552)	263
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 1,019	$ 621	$ (1,218)

(1) Revenues exclude Realized investment gains (losses), net, and related charges and adjustments. Realized investment gains (losses), net and related adjustments include the net impact of embedded derivatives related to our living benefit features and related hedge positions as described below. The related charges represent payments related to the market value adjustment features of certain of our annuity products. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.

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

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

Adjusted Operating Income

2010 to 2009 Annual Comparison. Adjusted operating income increased $289 million, from $757 million in 2009 to $1,046 million in 2010. The increase in adjusted operating income was primarily due to an increase in fee income, net of higher distribution costs, driven by higher average variable annuity asset balances invested in separate accounts due to positive net flows and net market appreciation.

Partially offsetting the increase in adjusted operating income was a $31 million lower benefit related to adjustments to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products and to our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs. As shown in the following table, adjusted operating income for 2010 included $348 million of benefits from these adjustments, compared to $379 million of benefits included in 2009. This variance is discussed in more detail below.

	Year ended December 31, 2010			Year ended December 31, 2009		
	Amortization of DAC and Other Costs(1)	Reserves for GMDB/ GMIB(2)	Total	Amortization of DAC and Other Costs(1)	Reserves for GMDB/ GMIB(2)	Total
			(in millions)			
Quarterly market performance adjustment	$ 36	$ 67	$ 103	$ 54	$ 277	$ 331
Annual review / assumption updates	165	12	177	(30)	(19)	(49)
Quarterly adjustment for current period experience and other updates	23	45	68	63	34	97
Total	$ 224	$ 124	$ 348	$ 87	$ 292	$ 379

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

The $103 million of benefits for 2010 relating to the quarterly market performance adjustments shown in the table above are attributable to changes to our estimate of total gross profits to reflect actual fund performance. The following table shows the actual quarterly rate of return on variable annuity account values for the four quarters of 2010 compared to our previously expected quarterly rate of return used in our estimate of total gross profits.

	First Quarter 2010	Second Quarter 2010	Third Quarter 2010	Fourth Quarter 2010
Actual rate of return	3.4%	(5.2)%	8.1%	6.0%
Expected rate of return	2.0%	1.9%	2.1%	1.9%

Actual returns exceeded our expected returns for 2010 which increased our estimates of total gross profits and decreased our estimate of future expected claims costs associated with the guaranteed minimum death and income benefit features of our variable annuity products, by establishing a new, higher starting point for the variable annuity account values used in estimating those items for future periods. The expected rates of return in 2010 for some contract groups were based upon our maximum future rate of return under the reversion to the mean approach, as discussed below. The overall increase in our estimate of total gross profits and decrease in our estimate of future expected claims costs results in a lower required rate of amortization and lower required reserve provisions, which are applied to all prior periods. The resulting cumulative adjustment to prior amortization and reserve provisions was a $103 million benefit for 2010 as shown in the table above.

The $331 million of benefits for 2009 relating to the quarterly market performance adjustments is attributable to a similar impact on gross profits of market value increases in the underlying assets associated with our variable annuity products, reflecting financial market conditions during the period. The benefit in 2009 is higher than that in 2010 due to a greater difference in 2009 between the actual rates of return and the expected rates of return, which are detailed further below. Also, the $54 million decrease in amortization of deferred policy acquisition and other costs in 2009 is net of a $73 million charge to impair the entire remaining balance of valuation of business acquired, or VOBA, related to the variable annuity contracts acquired from Allstate in the second quarter of 2006. The additional charge was required in the first quarter of 2009, as the declines in estimated future gross profits related to market performance caused the present value of estimated gross profits for these contracts to fall below zero. Since the VOBA balance was completely amortized for these contracts, it cannot be reestablished for market value appreciation in subsequent periods.

As discussed and shown in the table above, results for both periods also include the impact of the annual reviews of the assumptions used in the reserves for the guaranteed minimum death and income benefit features of our variable annuity products and in our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs. 2010 included $177 million of benefits from these annual reviews, primarily related to reductions in lapse rate assumptions and more favorable assumptions relating to fee income. 2009 included $49 million of charges from these annual reviews, primarily related to reductions in the future rate of return assumptions applied to the underlying assets associated with our variable annuity products. Partially offsetting the impact of the updated future rate of return assumptions for 2009 were benefits related to the impact of lower mortality and higher investment spread assumptions.

As mentioned above, we derive our near-term future rate of return assumptions using a reversion to the mean approach, a common industry practice. Under this approach, we consider actual returns over a period of time and initially adjust future projected returns over a four year period so that the assets are projected to grow at the long-term expected rate of return for the entire period. The near-term future projected return across all contract groups is 7.1% per annum as of December 31, 2010, or 1.8% per quarter. Beginning in the fourth quarter of 2008 and continuing through the fourth quarter of 2010, the projected near-term future annual rate of return calculated using the reversion to the mean approach for some contract groups was greater than our maximum future rate of return assumption across all asset types for this business. In those cases, we utilize the maximum future rate of return over the four year period, thereby limiting the impact of the reversion to the mean on our estimate of total gross profits. The near-term blended maximum future rate of return, for these impacted contract groups, under the reversion to the mean approach is 9.6% at the end of 2010. Included in the blended maximum future rate are assumptions for returns on various asset classes, including a 5.7% annual weighted average rate of return on fixed income investments and a 13% annual maximum rate of return on equity investments. Further or continued market volatility could result in additional market value changes within our separate account assets and corresponding changes to our gross profits, as well as additional adjustments to the amortization of deferred policy acquisition and other costs, and the costs relating to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products. Given that the estimates of future gross profits are based upon our maximum future rate of return assumption for some contract groups, all else being equal, future rates of return higher than the above mentioned future projected four year return of 7.1%, but less than the maximum future rate of return of 9.6%, may still result in increases in the amortization of deferred policy acquisition and other costs, and the costs relating to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products.

The $68 million benefit for 2010 and the $97 million benefit for 2009 for the quarterly adjustments for current period experience and other updates shown in the table above primarily reflect the impact of differences between actual gross profits for the period and the previously estimated expected gross profits for the period, as well as an update for current and future expected claims costs associated with the guaranteed minimum death and

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

2009 to 2008 Annual Comparison. Adjusted operating income increased $1,647 million, from a loss of $890 million in 2008 to income of $757 million in 2009. As shown in the following table, adjusted operating income for 2009 included $379 million of benefits related to adjustments to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products and to our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs, compared to $1,334 million of charges included in 2008, resulting in a $1,713 million favorable variance.

	Year ended December 31, 2009			Year ended December 31, 2008		
	Amortization of DAC and Other Costs(1)	Reserves for GMDB/ GMIB(2)	Total	Amortization of DAC and Other Costs(1)	Reserves for GMDB/ GMIB(2)	Total
			(in millions)			
Quarterly market performance adjustment	$ 54	$ 277	$ 331	$ (576)	$ (484)	$ (1,060)
Annual review/assumption updates	(30)	(19)	(49)	18	(118)	(100)
Quarterly adjustment for current period experience and other updates	63	34	97	(81)	(93)	(174)
Total	$ 87	$ 292	$ 379	$ (639)	$ (695)	$ (1,334)

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

These adjustments primarily reflect the market conditions that existed in the respective periods, and the estimated impact of those market conditions on contractholder behavior, and are discussed individually in more detail below. Partially offsetting these increases was a decrease in fee income, driven by lower average variable annuity asset balances invested in separate accounts. The declines in average separate account assets were due to market depreciation and transfers of balances to the general account. The transfer of balances to our general account relates to an automatic rebalancing element, also known as an asset transfer feature, in some of our optional living benefit features, which, as part of the overall product design, transferred approximately $10.5 billion out of the separate accounts and into the fixed-rate account in our general account from January 1, 2008 through March 31, 2009, due to equity market declines. Subsequently, in the remainder of 2009, approximately $3.5 billion was returned from the fixed-rate account in our general account to the separate accounts by operation of the automatic rebalancing element due to market improvements. Higher average annuity account values in investments backed by our general account resulting from these transfers also led to improved investment results, which offset the decrease in fee income.

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

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

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

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

As shown in the table above, results for both periods include the impact of the annual reviews of the assumptions used in the reserve for the guaranteed minimum death and income benefit features of our variable annuity products and in our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs. 2009 included $49 million of charges from these annual reviews, primarily related to reductions in the future rate of return assumptions applied to the underlying assets associated with our variable annuity products. Partially offsetting the impact of the updated future rate of return assumptions were benefits related to the impact of lower mortality and higher investment spread assumptions. Adjusted operating income for 2008 included $100 million of charges from these annual reviews, primarily reflecting increased cost of expected income and death benefit claims due to lower expected lapse rates for policies where the current policyholder account value is below the guaranteed minimum death benefit.

The quarterly adjustments for current period experience shown in the table above reflect the impact of differences between actual gross profits for the period and the previously estimated expected gross profits for the period, as well as an update for current and future expected claims costs associated with the guaranteed minimum death and income benefit features of our variable annuity products. To the extent each period s actual experience differs from the previous estimate for that period, the assumed level of total gross profits may change, and a cumulative adjustment to previous periods amortization, also referred to as an experience true-up adjustment, may be required in the current period. This adjustment to previous periods amortization is in addition to the direct impact of actual gross profits on current period amortization and the market performance related adjustment to our estimates of gross profits for future periods. The experience true-up adjustments for deferred policy acquisition and other costs in 2009 reflect a reduction in amortization due to better than expected gross profits. The experience true-up adjustment for the reserves for the guaranteed minimum death and income benefit

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features of our variable annuity products in 2009 primarily reflects higher than expected fee income due to market value increases, partially offset by higher than expected actual contract guarantee claims costs due to lower than expected lapses. Less favorable than expected gross profits in 2008 were primarily due to lower than expected fee income and higher actual contract guarantee claims costs in 2008, primarily driven by unfavorable financial market conditions.

Revenues

2010 to 2009 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased $680 million, from $2,515 million in 2009 to $3,195 million in 2010. Policy charges and fees and asset management fees and other income increased $703 million primarily due to higher average variable annuity asset balances invested in separate accounts. The increase in average separate account asset balances was due to positive net flows, net market appreciation, and net transfers of balances from the general account to the separate accounts during 2010. The transfer of balances from the general account relates to both transfers from a customer elected dollar cost averaging program of approximately $2.2 billion and approximately $0.4 billion of net transfers primarily from the automatic rebalancing element, also referred to as an asset transfer feature, in some of our optional living benefit features. The automatic rebalancing element is part of the overall product design, and as a result of market improvements, transferred balances out of the fixed-rate account in our general account to the separate accounts during 2010. Premiums also increased $78 million driven by an increase in annuitizations primarily from contracts with the guaranteed minimum income benefit feature. Partially offsetting the increase in revenues was a decrease in net investment income of $101 million, reflecting lower average annuity account values in the general account also resulting from transfers from the fixed-rate account in the general account to the separate accounts as discussed above.

2009 to 2008 Annual Comparison. Revenues increased $78 million, from $2,437 million in 2008 to $2,515 million in 2009. Net investment income increased $179 million, reflecting higher average annuity account values in the general account, resulting from the transfer of balances to the fixed-rate account in our general account relating to the automatic rebalancing element in some of our optional living benefit features. Partially offsetting the increase in net investment income was a decrease of $125 million in policy charges and fees and asset management fees and other income driven by a decrease in fee income reflecting lower average variable annuity asset balances invested in separate accounts. The decline in average separate account asset balances was due to net market depreciation and the transfer of balances to the fixed-rate account in our general account as mentioned above.

Benefits and Expenses

2010 to 2009 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $391 million, from $1,758 million in 2009 to $2,149 million in 2010. Absent the net $31 million increase related to the adjustments to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products and to our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs, benefits and expenses increased $360 million. Excluding these adjustments, general and administrative expenses, net of capitalization, increased $240 million primarily driven by higher distribution and asset management costs, reflecting higher average variable annuity asset balances invested in separate accounts and higher variable annuity sales. Interest expense also increased $53 million driven by higher intercompany borrowings to fund operating costs and new business sales. The amortization of deferred policy acquisition costs, excluding the adjustments noted above, increased $36 million reflecting the impact of higher gross profits used as a basis for amortization driven by higher fee income. Excluding the adjustments noted above, insurance and annuity benefits increased $34 million driven by an increase in annuitizations primarily from contracts with the guaranteed minimum income benefit feature partially offset by lower reserves on the guaranteed minimum death and income benefit features due to the impact of favorable markets on account values during 2010. Lower interest credited to policyholders account balances driven by lower average annuity account values in the fixed-rate accounts of the general account was mostly offset by higher amortization of deferred sales inducements, reflecting the impact of higher gross profits primarily from fee income.

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2009 to 2008 Annual Comparison Benefits and expenses decreased $1,569 million, from $3,327 million in 2008 to $1,758 million in 2009. Absent the net $1,713 million decrease related to the adjustments to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products and to our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs, benefits and expenses increased $144 million. Excluding these adjustments, interest credited to policyholders account balances increased $130 million primarily reflecting higher average annuity account values in our general account, resulting from transfers relating to an automatic rebalancing element in some of our optional living benefit features, and higher amortization of deferred sales inducements, reflecting the higher rate of amortization applied to gross profits in calculating amortization for 2009, due to the negative market performance adjustments recognized during 2008. Excluding the adjustments noted above, policyholders benefits, including changes in reserves, increased $129 million primarily reflecting higher actual and expected contract guarantee claims costs related to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products. The amortization of deferred policy acquisition costs increased $82 million, excluding the adjustments noted above, also reflecting the higher rate of amortization for 2009, as discussed above. Partially offsetting these increases was a $152 million decrease in general and administrative expenses, net of capitalization, absent the effect of the items mentioned above, and a $45 million decrease in interest expense. The decrease in general and administrative expenses, net of capitalization, excluding the adjustments noted above, reflects a favorable variance related to the $97 million goodwill impairment recognized in 2008, and lower amortization of VOBA subsequent to the complete impairment in the first quarter of 2009 of balances related to the variable annuity contracts acquired from Allstate, as discussed above. The decrease in interest expense reflects paydowns of intercompany debt, which were funded with affiliated capital contributions.

Account Values

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

	Year ended December 31,		
	2010	2009	2008
		(in millions)	
Variable Annuities(1):			
Beginning total account value	$ 80,519	$ 60,007	$ 80,330
Sales	21,651	16,117	10,208
Surrenders and withdrawals	(6,923)	(5,776)	(8,000)
Net sales	14,728	10,341	2,208
Benefit Payments	(981)	(988)	(1,057)
Net flows	13,747	9,353	1,151
Change in market value, interest credited and other activity(2)	9,748	12,220	(20,353)
Policy charges	(1,666)	(1,061)	(1,121)
Ending total account value(3)	$ 102,348	$ 80,519	$ 60,007
Fixed Annuities:			
Beginning total account value	$ 3,452	$ 3,295	$ 3,488
Sales	103	179	121
Surrenders and withdrawals	(215)	(258)	(276)
Net redemptions	(112)	(79)	(155)
Benefit Payments	(267)	(160)	(160)
Net flows	(379)	(239)	(315)
Interest credited and other activity(2)	766	397	127
Policy charges	(2)	(1)	(5)

Ending total account value	$ 3,837	$ 3,452	$ 3,295

(1) Variable annuities include only those sold as retail investment products. Investments sold through defined contribution plan products are included with such products within the Retirement segment.

(2) Includes cumulative reclassifications of $267 million in 2010 and $259 million in 2009 from variable annuity to fixed annuity account values to conform presentation of certain contracts in annuitization status to current reporting practices.
(3) As of December 31, 2010, variable annuity account values are invested in equity funds ($56 billion or 55%), bond funds ($29 billion or 28%), market value adjusted or fixed-rate accounts ($9 billion or 9%), and other ($8 billion or 8%).

2010 to 2009 Annual Comparison Total account values for fixed and variable annuities amounted to $106.2 billion as of December 31, 2010, representing an increase of $22.2 billion from December 31, 2009. The increase was driven by positive variable annuity net flows and increases in the market value of customers variable annuities due to favorable equity markets for 2010. Individual variable annuity gross sales momentum continued in 2010 as sales increased by $5.5 billion, from $16.1 billion in 2009 to $21.6 billion in 2010. The increase reflects our product strength, customer value proposition, and position as the primary provider of living benefit guarantees based on highest daily customer account value as well as the further expansion of our distribution networks. Additionally, we have benefited from some of our competitors implementing product modifications to increase pricing and scale back product features due to market disruptions in late 2008 and the first half of 2009. Although we have implemented similar modifications, we believe that our product offerings have remained competitively positioned and expect our living benefit features will provide us an attractive risk and profitability profile, as all of our currently-offered optional living benefit features include the automatic rebalancing element described below. Individual variable annuity surrenders and withdrawals increased by $1.1 billion, from $5.8 billion in 2009 to $6.9 billion in 2010, reflecting the overall impact of higher account values in the current year due to market appreciation over the past twelve months.

2009 to 2008 Annual Comparison Total account values for fixed and variable annuities amounted to $84.0 billion as of December 31, 2009, an increase of $20.7 billion from December 31, 2008. The increase came primarily from increases in the market value of customers variable annuities due to equity market appreciation and from positive variable annuity net flows. Individual variable annuity gross sales increased by $5.9 billion, from $10.2 billion in 2008 to $16.1 billion in 2009. The increase reflects a benefit from the impact of market disruptions on some of our competitors, certain of which implemented product modifications to increase pricing and scale back product features in the second and third quarters of 2009. We also experienced increased sales in the third quarter of 2009 related to certain optional living benefit features which we previously announced would be discontinued during the third quarter of 2009. Individual variable annuity surrenders and withdrawals decreased by $2.2 billion, from $8.0 billion in 2008 to $5.8 billion in 2009, reflecting the overall impact of lower account values in the first half of 2009 due to market depreciation and lower lapses for policies where the current policyholder account value is below the guaranteed minimum death or living benefit value.

Variable Annuity Net Amount at Risk

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

The automatic rebalancing element, included in the design of certain optional living benefits, transfers assets between the variable investments selected by the annuity contractholder and, depending on the benefit feature, the fixed-rate account in the general account or a bond portfolio within the separate account. The transfers are based on the static mathematical formula used with the particular optional benefit which considers a number of factors, including the impact of investment performance on the contractholder s total account value. In general, negative investment performance may result in transfers to either the fixed-rate account in the general account or a bond portfolio within the separate account, and positive investment performance may result in transfers back to

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contractholder-selected investments. Overall, the automatic rebalancing element is designed to help mitigate our exposure to equity market risk and market volatility. Beginning in 2009, our offerings of optional living benefit features associated with currently-sold variable annuity products all include an automatic rebalancing element, and in 2009 we discontinued any new sales of optional living benefit features without an automatic rebalancing element.

Variable annuity account values with living benefit features were $75.1 billion, $52.5 billion and $33.1 billion as of December 31, 2010, 2009 and 2008, respectively. The following table sets forth the account values of our variable annuities with living benefit features and the net amounts at risk of the living benefit features split between those that include an automatic rebalancing element and those that do not, as of the dates indicated.

	December 31, 2010		December 31, 2009		December 31, 2008	
	Account Value	Net Amount at Risk	Account Value	Net Amount at Risk	Account Value	Net Amount at Risk
			(in millions)			
Automatic rebalancing element(1)	$ 57,336	$ 1,217	$ 34,901	$ 1,061	$ 17,653	$ 1,328
No automatic rebalancing element	17,735	1,825	17,570	2,785	15,401	4,973
Total variable annuity account values with living benefit features	$ 75,071	$ 3,042	$ 52,471	$ 3,846	$ 33,054	$ 6,301

(1) As of December 31, 2010, 2009 and 2008, asset values that have rebalanced to the general account or a separate account bond portfolio due to the automatic rebalancing element represent 12% or $6.7 billion of the $57.3 billion total account value, 23% or $8.2 billion of the $34.9 billion total account value, and 78% or $13.8 billion of the $17.7 billion total account value, respectively.

The increase in account values that included an automatic rebalancing element in 2010 compared to the prior years, reflects sales of our latest product offerings which include this feature, as well as the impact on account values of overall favorable equity markets since the prior periods. As of December 31, 2010, approximately 76% of variable annuity account values with living benefit features included an automatic rebalancing element in the product design, compared to 67% and 53% as of December 31, 2009 and 2008, respectively.

Favorable market conditions for the year ended December 31, 2010 drove the decrease in total net amount at risk compared to the prior years. As of December 31, 2010, approximately 40% of the net amount at risk associated with variable annuity account values with living benefit features included an automatic rebalancing element in the product design, compared to 28% as of December 31, 2009 and 21% as of December 31, 2008.

Our guaranteed minimum death benefits guarantee a minimum return on the contract value or an enhanced value, if applicable, to be used solely for purposes of determining benefits payable in the event of death. All of the $75.1 billion, $52.5 billion and $33.1 billion of variable annuity account values with living benefit features as of December 31, 2010, 2009 and 2008, respectively, also contain guaranteed minimum death benefits. An additional $24.0 billion, $24.4 billion and $23.3 billion of variable annuity account values, respectively, contain guaranteed minimum death benefits, but no living benefit features. Certain account values with guaranteed minimum death benefits are affected by an automatic rebalancing element because the contractholder selected a living benefit feature which includes an automatic rebalancing element. The following table sets forth the account values of our variable annuities with guaranteed minimum death benefits and the net amount at risk of the guaranteed minimum death benefits split between those that are affected by an automatic rebalancing element and those that are not, as of the dates indicated.

December 31, 2010	December 31, 2009	December 31, 2008

	Account Value	Net Amount at Risk	Account Value	Net Amount at Risk	Account Value	Net Amount at Risk
			(in millions)			
Automatic rebalancing element	$ 57,336	$ 592	$ 34,901	$ 800	$ 17,653	$ 1,698
No automatic rebalancing element	41,693	4,867	41,975	7,798	38,733	14,404
Total variable annuity account values with death benefit features	$ 99,029	$ 5,459	$ 76,876	$ 8,598	$ 56,386	$ 16,102

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As of December 31, 2010 approximately 58% of variable annuity account values with guaranteed minimum death benefits were affected by an automatic rebalancing element because the contractholder selected a living benefit feature which includes an automatic rebalancing element as part of the living benefit feature design, compared to 45% and 31% as of December 31, 2009 and 2008, respectively. As of December 31, 2010 approximately 11% of the net amount at risk associated with variable annuity account values with guaranteed minimum death benefits were affected by an automatic rebalancing element in the product design, compared to 9% and 11% as of December 31, 2009 and 2008, respectively.

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

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

Historically, adjusted operating income included the net impact of both the change in fair value of the embedded derivative liabilities associated with our living benefit features and the change in fair value of the related derivative hedge positions, as well as the related impact to the amortization of deferred policy acquisition and other costs. In light of management s decision to change the hedge target, as discussed above, in the third quarter of 2010, we amended our definition of adjusted operating income to exclude changes in the fair value of the embedded derivative liabilities and the related derivative hedge positions, as well as the related amortization of deferred policy acquisition and other costs. The net impact of both the change in fair value of the embedded derivative liabilities associated with our living benefit features and the change in fair value of the related derivative hedge positions are included in Realized investment gains (losses), net and related adjustments and the related impact to the amortization of deferred policy acquisition and other costs is included in Related charges. See Consolidated Results of Operations Segment Measures for additional information.

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The following table shows the net impact of changes in the embedded derivative liabilities, as defined by GAAP, and hedge positions, as well as the related amortization of deferred policy acquisition and other costs, for the years ended December 31, 2010, 2009 and 2008 for the Individual Annuities segment.

	Year Ended December 31, 2010	2009	2008
		(in millions)	
Decrease/(increase) in the fair value of the embedded derivative liabilities(1)	$ 1,057	$ 3,049	$ (3,018)
Change in fair value of hedge positions	(224)	(2,715)	2,494
Less: Gain/(loss) reported in Corporate and Other operations(2)	306	0	0
Subtotal	527	334	(524)
(Increase)/decrease in the fair value of the embedded derivative liabilities due to updates to the assumptions used in the valuation of the liability	(902)	(110)	86
Decrease in the embedded derivative liabilities resulting from the impact of the market-perceived risk of our own non-performance(3)	412	312	0
Net benefit/(charge) from the mark-to-market of embedded derivatives and related hedge positions(4)	$ 37	$ 536	$ (438)
Related benefit/(charge) to amortization of DAC and other costs(5)	$ (4)	$ (410)	$ 251
Net benefit/(charge) from the mark-to-market of embedded derivatives and related hedge positions, after the impact of DAC and other costs	$ 33	$ 126	$ (187)

(1) Represents the change in the fair value of the embedded derivative liability as defined by GAAP, excluding the change in the fair value of the embedded derivative liabilities due to updates to the assumptions used in the valuation of the liability and the impact of the market-perceived risk of our own non-performance.
(2) Represents the impact from temporarily hedging to an amount that differs from our hedge target definition.
(3) As of December 31, 2010, our adjustment for the market s perception of our own risk of non-performance resulted in a $723 million decrease to the embedded derivative liability.
(4) Net benefit/(charge) from the mark-to-market of embedded derivatives and related hedge positions are excluded from adjusted operating income and included in operating results in Realized investment gains (losses), net and related adjustments.
(5) Related benefit/(charge) to amortization of DAC and other costs is excluded from adjusted operating income and included in operating results in Related charges.

In 2010, the net impact from the mark-to-market of our embedded derivatives and related hedge positions for the Individual Annuities segment was a benefit of $37 million partially offset by a $4 million increase in the amortization of deferred policy acquisition and other costs resulting from the corresponding impact to current period gross profits. Excluding the updates of the assumptions used in the valuation of the embedded derivatives, which are discussed below, and excluding the related amortization of deferred policy acquisition and other costs, the hedging activities resulted in a $527 million net benefit in 2010 for the Individual Annuities segment. $387 million of the $527 million net benefit in 2010 is attributable to the difference between the change in the target hedge liability and the change in the fair value of the liability as defined by GAAP. As described above, because the value of our new hedge target does not equal the value of embedded derivative liability as defined by GAAP, our net hedging results will be impacted each period by the difference between the changes in the two values. The remaining $140 million of the $527 million net benefit is primarily driven by results prior to the implementation of our new hedging strategy related to differences in the actual performance of the underlying separate account funds relative to the performance of the market indices we utilized as a basis for developing our hedging strategy. Given the sensitivity of the fair value of the embedded derivative to current financial market conditions as well as the new hedging strategy which targets a liability different from that defined by GAAP, differences between the fair value of the embedded derivative as defined by GAAP and related hedge positions for a given period will be largely dependent on the financial market conditions throughout the period. For additional information regarding the methodology used in determining the fair value of the embedded derivatives associated with our living benefit features, see Note 20 to the Consolidated Financial Statements and Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Variable Annuity Optional Living Benefit Features.

As shown above, the net impact from the mark-to-market of our embedded derivatives and related hedge positions for 2010 also includes the impact of updates to the assumptions used in the valuation of the embedded derivative liabilities resulting in a $902 million charge. This charge represents an increase to the embedded

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derivative liability primarily driven by reductions in the expected lapse rate assumption based on evolving experience. Additionally, beginning in 2009, we include an adjustment to the embedded derivative liability to reflect the market s perception of our own risk of non-performance. To reflect the market s perception of our own risk of non-performance, we incorporate an additional spread over LIBOR into the discount rate used in the valuation of the embedded derivative liabilities. This additional spread is applied at an individual contract level and only to those embedded derivatives in a liability position and not to those in a contra-liability position. For additional information regarding the methodology for calculating the impact of the market-perceived risk of our non-performance, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Variable Annuity Optional Living Benefit Features. As shown in the table above, 2010 includes a $412 million benefit related to this adjustment primarily resulting from an increase in the fair value of embedded derivatives in a liability position reflecting an increase in the present value of future expected benefit payments driven by lower interest rates as well as a reduction in the expected lapse rate assumption.

In 2009 and 2008, the net impact from the mark-to-market of our embedded derivatives and related hedge positions was a benefit of $536 million and a net charge of $438 million, respectively. A corresponding impact to current period gross profits related to these impacts led to an offsetting increase in the amortization of deferred policy acquisition and other costs of $410 million in 2009 and a decrease in the amortization of deferred policy acquisition and other costs of $251 million in 2008. Excluding the updates of the assumptions used in the valuation of the embedded derivatives, which are discussed below and excluding the related amortization of deferred policy acquisition and other costs, the hedging activities resulted in a $334 million benefit in 2009 and a $524 million charge in 2008. Variances for both periods are primarily driven by differences in the actual performance of the underlying separate account funds relative to the performance of the market indices we utilize as a basis for developing our hedging strategy.

As shown above, the net impact from the mark-to-market of our embedded derivatives and related hedge positions for 2009 and 2008 also includes the impact of updates to the assumptions used in the valuation of the embedded derivative liabilities. The charge of $110 million for 2009 represents an increase to the embedded derivative liability primarily driven by reductions in the expected lapse rate assumption based on evolving experience partially offset by a decrease in the liability driven by an update of the equity volatility assumption to better match the actual equity indices referenced. The benefit of $86 million in 2008 represents a decrease to the embedded derivative liability primarily driven by an update of the equity volatility assumption to better match the actual equity indices referenced. Additionally, beginning in 2009, we included an adjustment to the embedded derivative liability to reflect the market s perception of our own risk of non-performance, as described above. 2009 includes a $312 million benefit related to this update.

Capital hedge program

In the second quarter of 2009, we began the expansion of our hedging program to include a portion of the market exposure related to the overall capital position of our variable annuity business, including the impact of certain statutory reserve exposures. These capital hedges, which primarily consisted of equity-based total return swaps, were designed to partially offset changes in our capital position resulting from market driven changes in certain living and death benefit features of our variable annuity products. During the second quarter of 2010, we removed the equity component of our capital hedge within the Individual Annuities segment by terminating the equity-based total return swaps, as part of a new program to more broadly address the equity market exposure of the statutory capital of the Company as a whole, under stress scenarios. Since the new program incorporates capital implications across a number of businesses, the results of that program are reported within Corporate and Other operations. Consequently, see Corporate and Other for a discussion of the results of the current program. See Liquidity and Capital Resources Liquidity and Capital Resources of Subsidiaries Domestic Insurance Subsidiaries for a further discussion of the capital hedge program. The results of the Individual Annuities segment for 2010 included $21 million of mark-to-market losses on these capital hedges prior to their termination. The results of the Individual Annuities segment for 2009 included $180 million of mark-to-market losses on these capital hedges driven by favorable market conditions during the year which resulted in an increase in our capital position. The results of these hedges are included in Realized investment gains (losses), net and related adjustments and have been excluded from adjusted operating income. See Consolidated Results of Operations Segment Measures for additional information. We continue to assess the composition of the hedging program on an ongoing basis.

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Retirement

Operating Results

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

	Year ended December 31, 2010	2009	2008
		(in millions)	
Operating results:			
Revenues	$ 5,183	$ 4,659	$ 4,859
Benefits and expenses	4,611	4,165	4,314
Adjusted operating income	572	494	545
Realized investment gains (losses), net, and related adjustments(1)	262	(825)	(1,091)
Related charges(2)	(17)	5	8
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	468	1,533	(1,364)
Change in experience-rated contractholder liabilities due to asset value changes(4)	(598)	(831)	793
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 687	$ 376	$ (1,109)

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments. Realized investment gains (losses), net and related adjustments include the net impact of our living benefit features and related hedge positions. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.

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

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

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

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

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

Adjusted Operating Income

2010 to 2009 Annual Comparison. Adjusted operating income increased $78 million, from $494 million in 2009 to $572 million in 2010, primarily reflecting higher asset-based fee income and improved net investment spread results partially offset by an increase in general and administrative expenses, net of capitalization, and a less favorable benefit from reserve refinements. Each item is further discussed below.

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

Improved net investment spread results were driven by lower crediting rates on general account liabilities in our full service business and increased income from equity method investments driven by mark-to-market gains

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in 2010 compared to mark-to-market losses in 2009. Lower crediting rates on general account liabilities in our full service business resulted from rate resets in the third quarter of 2009 and first quarter of 2010. Our ability to maintain current net spreads in our full service business in future periods is impacted by the levels of interest rates, the pace and extent of changes in interest rates, competitor pricing, and the minimum guaranteed crediting rates on our general account stable value products. Also contributing to the increase in net investment spread results were increased net settlements on floating rate to fixed rate interest rate swaps used to manage the duration of the investment portfolio. The increase in net swap settlements resulted from the generally favorable impact of lower interest rates on the swaps used to manage the duration of the investment portfolio primarily for our institutional investment products business. As we continued to manage the duration gap between assets and liabilities within our risk management framework, the use of interest rate swaps to increase the duration of the investment portfolio, primarily in our institutional investment products business, grew in 2009 as the duration of the investment portfolio excluding the impact of swaps declined during 2009, relative to the liabilities, as a result of purchases of fixed income securities with shorter durations than the durations of our liabilities and higher levels of cash and short-term investments. Although the notional amounts of these swaps on average for 2010 are relatively unchanged from 2009, the amounts have declined in the latter half of 2010 as lower levels of cash and short-term investments and purchases of fixed income securities with durations more closely matched to our liabilities reduced the duration gap between our assets and liabilities. Future net investment spread results could be impacted if interest rates or the notional amounts of these swaps change. Partially offsetting the improvement in net investment spread results was the negative impact of a lower base of invested assets in our general account reflecting scheduled withdrawals from guaranteed investment products in our institutional investment products business partially offset by the positive impact of net additions in our structured settlement product and increases in balances in our full service general account stable value products. If we are unable to replace scheduled withdrawals of guaranteed investment products, including GICs, funding agreements, retail notes, and institutional notes, with new additions, net investment spread results in future periods may be negatively impacted. For further discussion of our sales, see Sales Results and Account Values.

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

Results for both 2010 and 2009 also include the impact of an annual review of the assumptions used in our estimate of total gross profits used as a basis for amortizing deferred policy acquisition costs and valuation of business acquired, as well as the impact of our quarterly adjustments to total gross profits for current period experience. Adjusted operating income for 2010 and 2009 included charges of $18 million and $3 million, respectively, from the annual reviews. The quarterly adjustments for current period experience resulted in an $11 million benefit in 2010 compared to a $5 million charge in 2009, reflecting the cumulative impact on amortization of differences between actual gross profits for the period and the previously estimated expected gross profits for the period. Together, these items resulted in net charges included in adjusted operating income of $7 million for 2010 and $8 million in 2009. The net charge of $7 million in 2010 was driven by changes in lapse rate and fee-based profit margin assumptions which both decreased expected future gross profits.

2009 to 2008 Annual Comparison. Adjusted operating income decreased $51 million, from $545 million in 2008 to $494 million in 2009. Results for both periods include the impact of an annual review of the assumptions used in our estimate of total gross profits used as a basis for amortizing deferred policy acquisition costs and valuation of business acquired, as well as the impact of our quarterly adjustments to total gross profits for current period experience. Adjusted operating income for 2009 included a $3 million charge from the annual review, compared to a $21 million charge in 2008. The charge in 2008 primarily reflected a decrease in our estimate of future gross profits, including a decline in our asset-based profit assumptions and an increase in our expense assumptions. The quarterly updates for actual experience resulted in a $5 million of charge in 2009 and a $23 million benefit in 2008, reflecting the cumulative impact on amortization of differences between actual gross profits for the period and the previously estimated expected gross profits for the period. In addition, 2008 included a $29 million benefit from a reduction in the amortization of valuation of business acquired due to a cumulative adjustment relating to the calculation of actual and expected gross profits. Together, these items resulted in a net charge of $8 million in 2009 and a net benefit of $31 million in 2008.

Excluding the items discussed above, adjusted operating income decreased $12 million compared to 2008 reflecting a decrease in adjusted operating income for our institutional investment products business and relatively unchanged adjusted operating income in our full service business. The decrease in our institutional investment products business primarily reflects a less favorable benefit from reserve refinements of $44 million, primarily due to a smaller benefit in 2009 related to updates of client census data on our group annuity blocks of business, as well as less favorable case experience related to our group annuity blocks of business. Partially offsetting this decrease were improved net investment spread results and a favorable variance in the mark-to-market of equity investments required in certain of our separate account products. The increase in net investment spread results was primarily due to increased net settlements on interest rate swaps used to manage the duration of the investment portfolio, and the impact of the maturity of a single large guaranteed investment contract which had an interest crediting rate substantially in excess of our general account invested asset yield. The increase in net swap settlements resulted from a higher notional amount of swaps used to manage the duration of the investment portfolio and the generally favorable impact of lower interest rates on those swaps. As we continued to manage the duration gap between assets and liabilities within our risk management framework, the use of interest rate swaps to increase the duration of the investment portfolio grew in 2009 as the duration of the investment portfolio excluding the impact of swaps declined. The investment portfolio duration had generally declined relative to the liabilities as a result of purchases of fixed income securities with shorter duration than the duration of our liabilities and higher levels of short-term investments discussed below. Partially offsetting these increases in investment results was a lower benefit from the accretion into net investment income of fixed maturity other-than-temporary impairments recognized in previous periods. Such accretion did not contribute to results for 2009 due to our adoption of new authoritative guidance related to fixed maturity other-than-temporary impairments on January 1, 2009. Also serving as partial offsets were a lower base of invested assets in our general account reflecting scheduled withdrawals of our guaranteed investment products and lower yields, including the impact of declining short-term interest rates and a higher balance of investments in lower yielding assets, such as cash and short-term investments, for liquidity purposes. Higher levels of short-term liquidity were maintained in 2009 to provide additional capacity to address changing cash needs in light of market conditions during that period.

Results of our full service business in 2009 compared to 2008 benefited from improved net investment spread results, driven by higher net yields due to the impact of lower crediting rates on general account liabilities, resulting from rate resets, as well as higher average invested assets in our general account reflecting full service participant transfers from our equity based separate account and mutual fund products to our general account stable value products. Serving to mostly offset these increases were lower asset-based fees, due to a decrease in average full service fee-based retirement account values, primarily resulting from equity market depreciation and full service participant transfers from our equity based separate account and mutual fund products to our general account stable value products, as well as fee concessions made to certain existing clients. Although account value declines in 2008 and early 2009 due to equity market depreciation were partially offset by large plan sales, in some instances these cases provide for more limited product offerings than existing business, and consequently a lower contribution to asset-based fees.

Revenues

2010 to 2009 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased $524 million, from $4,659 million in 2009 to $5,183 million in 2010. Premiums increased $464 million, driven by higher life-contingent structured settlement and single premium annuity sales which resulted in a corresponding increase in policyholders benefits, including the change in policy reserves, as discussed below. Policy charges and fee income and asset management fees and other income increased $131 million, primarily driven by an increase in asset-based fees due to an increase in average full service fee-based retirement account values and an increase in fee-based investment-only stable value account values in our institutional investment products business, as well as increased income from net settlements on interest rate swaps, as discussed above.

Partially offsetting these increases was a $71 million decrease in net investment income, primarily reflecting a smaller base of invested assets resulting from scheduled withdrawals of our general account guaranteed investment products in our institutional investment products business, and lower portfolio yields, including lower interest rates on floating rate investments due to rate resets. Partially offsetting these declines were increases in net investment income from an increase in income on equity method investments as discussed above.

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2009 to 2008 Annual Comparison. Revenues decreased $200 million, from $4,859 million in 2008 to $4,659 million in 2009. Net investment income decreased $255 million, primarily reflecting lower portfolio yields, including lower interest rates on floating rate investments due to rate resets and the impact of a higher balance of investments in lower yielding assets, such as cash and short-term investments, for liquidity purposes, as discussed above. Also contributing to the decline in net investment income was a smaller base of invested assets related to our guaranteed investment products, due to maturities, and a lower benefit from the accretion into net investment income of fixed maturity other-than-temporary impairments recognized in previous periods, as discussed above. Partially offsetting these declines were increases in net investment income from a larger base of invested assets in our full service business, primarily driven by participant transfers from our equity based separate account and mutual fund products to our general account stable value products, and a favorable variance in the mark-to-market of equity investments required in certain of our separate account products.

Partially offsetting the decline in net investment income was a $43 million increase in policy charges and fee income and asset management fees and other income, primarily relating to higher net settlements on interest rate swaps used to manage the duration of the investment portfolio, as discussed above. Also contributing to the increase in policy charges and fee income and asset management fees and other income was a $35 million increase in revenues associated with the acquired operations of MullinTBG. Partially offsetting these increases in policy charges and fee income and asset management fees and other income was a decline in asset-based fees in our full service business driven by a decrease in average full service fee-based retirement account values, primarily resulting from equity market depreciation and full service participant transfers from our equity based separate account and mutual fund products to our general account stable value products, as well as fee concessions made to certain existing clients, partially offset by large plan sales, as discussed above. In addition, premiums increased $12 million, driven by higher life-contingent structured settlement sales, partially offset by lower single premium group annuity sales, which resulted in a corresponding increase in policyholders benefits, including the change in policy reserves, as discussed below.

Benefits and Expenses

2010 to 2009 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $446 million, from $4,165 million in 2009 to $4,611 million in 2010. Policyholders benefits, including the change in policy reserves, increased $468 million, primarily reflecting an increase in change in policy reserves associated with the increase in premiums and a less favorable benefit from reserve refinements, as discussed above. Also, general and administrative expenses, net of capitalization, increased $67 million primarily driven by higher commission expenses, net of capitalization, higher asset management costs due to an increase in average full service fee-based retirement account values, and expenses incurred in 2010 related to certain cost reduction initiatives. These increases were partially offset by a decrease in interest credited to policyholders account balances of $73 million, primarily reflecting a smaller base of account values resulting from scheduled withdrawals of our general account guaranteed investment products in our institutional investment products business, lower crediting rates on floating rate guaranteed investment products, and lower crediting rates on full service stable value account values due to rate resets. In addition, interest expense decreased $12 million reflecting lower interest rates and lower borrowings used to support investments.

2009 to 2008 Annual Comparison. Benefits and expenses decreased $149 million, from $4,314 million in 2008 to $4,165 million in 2009. Absent the impact of the annual reviews and other adjustments to the amortization of deferred policy acquisition costs and valuation of business acquired discussed above, which account for a $39 million increase, benefits and expenses decreased $188 million. Interest credited to policyholders account balances decreased $237 million, primarily reflecting lower crediting rates on floating rate guaranteed investment products, the impact of maturities within our guaranteed investment products and lower crediting rates on full service stable value product liabilities due to rate resets, partially offset by the impact of higher full service general account stable value product account values due to participant transfers from equity based separate account and mutual fund products. In addition, interest expense decreased $60 million, reflecting lower interest rates and lower borrowings used to support investments. Partially offsetting these decreases, policyholders benefits, including the change in policy reserves, increased $59 million, primarily reflecting a less favorable benefit from reserve refinements, as discussed above, and the increase in reserves associated with the increase in premiums discussed above, partially offset by lower interest on lower general account policy reserves. General and administrative expenses, net of capitalization, increased $54 million

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excluding the impact of the annual reviews and other adjustments mentioned above, driven by a $39 million increase in costs related to the acquired operations of MullinTBG, as well as expenses incurred to support several large client sales, partially offset by the absence of the costs of an interim service agreement relating to the retirement business acquired from Union Bank of California, N.A. and a $12 million charge for one-time costs associated with certain cost reduction programs, which were included in 2008.

Sales Results and Account Values

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

	Year ended December 31,		
	2010	2009 (in millions)	2008
Full Service(1):			
Beginning total account value	$ 126,345	$ 99,738	$ 112,192
Deposits and sales	19,266	23,188	18,941
Withdrawals and benefits	(16,804)	(14,438)	(15,051)
Change in market value, interest credited and interest income	12,506	17,857	(25,259)
Acquisition(2)	0	0	8,915
Ending total account value	$ 141,313	$ 126,345	$ 99,738
Net additions	$ 2,462	$ 8,750	$ 3,890
Institutional Investment Products(3):			
Beginning total account value	$ 51,908	$ 50,491	$ 51,591
Additions(4)	15,298	7,786	5,738
Withdrawals and benefits(5)	(6,958)	(7,817)	(7,392)
Change in market value, interest credited and interest income	3,370	2,287	2,198
Other(6)	565	(839)	(1,644)
Ending total account value	$ 64,183	$ 51,908	$ 50,491
Net additions (withdrawals)	$ 8,340	$ (31)	$ (1,654)

(1) Ending total account value for the full service business includes assets of Prudential s retirement plan of $5.8 billion, $5.4 billion and $4.6 billion as of December 31, 2010, 2009 and 2008, respectively.
(2) On October 10, 2008 we acquired MullinTBG, as discussed above.
(3) Ending total account value for the institutional investment products business includes assets of Prudential s retirement plan of $5.4 billion, $5.2 billion and $5.3 billion as of December 31, 2010, 2009 and 2008, respectively. Ending total account value for the institutional investments products business also includes $1.5 billion as of both December 31, 2010 and 2009 related to collateralized funding agreements issued to the Federal Home Loan Bank of New York (FHLBNY), and $1.0 billion, $1.8 billion and $3.5 billion as of December 31, 2010, 2009 and 2008, respectively, related to affiliated funding agreements issued using the proceeds from the sale of Prudential Financial retail medium-term notes. For additional information regarding the FHLBNY and the retail medium-term notes program see, Liquidity and Capital Resources.
(4) Additions include $500 million and $700 million for 2009 and 2008, respectively, representing transfers of externally-managed client balances to accounts we manage. These additions are offset within Other, as there is no net impact on ending account values for these transfers.
(5) Withdrawals and benefits include $(752) million and $(488) million for 2010 and 2009, respectively, representing transfers of client balances from accounts we managed to externally-managed accounts. These withdrawals are offset within Other, as there is no net impact on ending account values for this transfer.
(6) Other includes transfers from (to) the Asset Management segment of $(164) million, $(11) million and $432 million for 2010, 2009 and 2008, respectively. Other also includes $752 million, $(12) million and $(700) million in 2010, 2009 and 2008, respectively, representing net transfers of externally-managed

client balances from/(to) accounts we manage. These transfers are offset within Additions or Withdrawals and benefits, as there is no net impact on ending account values for this transfer. Other also includes $1,500 million for 2009 representing collateralized funding agreements issued to the FHLBNY and $(1,522) million for 2009 representing terminations of affiliated funding agreements utilizing proceeds from the issuances to FHLBNY. Remaining amounts for all periods presented primarily represent changes in asset balances for externally-managed accounts.

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2010 to 2009 Annual Comparison. Account values in our full service business amounted to $141.3 billion as of December 31, 2010, an increase of $15.0 billion from December 31, 2009 primarily driven by an increase in the market value of customer funds due to favorable equity markets and, to a lesser extent, net additions in 2010. Net additions decreased $6.3 billion, from $8.8 billion in 2009 to $2.5 billion in 2010, primarily reflecting lower new plan sales, as 2009 included significant large plan sales, and, to a lesser extent, higher plan lapses. New plan sales in 2010 included twelve client sales over $100 million totaling $3.3 billion compared to twelve client sales over $100 million in 2009, which totaled $7.5 billion.

Account values in our institutional investment products business amounted to $64.2 billion as of December 31, 2010, an increase of $12.3 billion from December 31, 2009. The increase in account values was primarily driven by additions of fee-based investment-only stable value products and increases in the market value of customer funds, primarily from a decline in fixed income market yields and interest credited on general account liabilities. These increases were partially offset by declines in general account guaranteed investment product account values due to scheduled withdrawals. Net additions (withdrawals) increased $8.4 billion, from net withdrawals of $31 million in 2009 to net additions of $8.3 billion in 2010 primarily reflecting higher sales of fee-based investment-only stable value products and lower general account guaranteed investment product scheduled withdrawals. In addition, sales of guaranteed investment products in the institutional and retail markets continue to be negatively impacted by capital market conditions.

2009 to 2008 Annual Comparison. Account values in our full service business amounted to $126.3 billion as of December 31, 2009, an increase of $26.6 billion from December 31, 2008. The increase in account values was primarily driven by an increase in the market value of customer funds due to equity market appreciation and, to a lesser extent, by net additions. Net additions increased $4.9 billion, from $3.9 billion in 2008 to $8.8 billion in 2009, primarily reflecting higher new plan sales and, to a lesser extent, lower plan lapses. New plan sales in 2009 included twelve client sales over $100 million, totaling $7.5 billion, compared to ten client sales over $100 million in 2008, which totaled $4.5 billion.

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

Asset Management

Operating Results

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

	Year ended December 31,		
	2010	2009	2008
	(in millions)		
Operating results:			

Revenues	$ 1,888	$ 1,257	$ 1,686
Expenses	1,401	1,202	1,454
Adjusted operating income	487	55	232
Realized investment gains (losses), net, and related adjustments(1)	13	(32)	40
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(2)	29	(14)	28
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 529	$ 9	$ 300

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

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

Adjusted Operating Income

2010 to 2009 Annual Comparison. Adjusted operating income increased $432 million, from $55 million in 2009 to $487 million in 2010 primarily reflecting more favorable results from commercial mortgage activities and more favorable investment results from proprietary investing activities, as well as increased asset management fees.

Asset management fees increased $224 million, before associated expenses, primarily from retail and institutional customer assets as a result of higher asset values due to market appreciation and positive net asset flows. Results from the segment s commercial mortgage activities increased primarily driven by lower credit and valuation-related charges on interim loans. Results in 2010 include $50 million of net credit and valuation-related charges compared to $240 million in 2009. As of December 31, 2010, the principal balance of interim loans outstanding totaled $1.3 billion, which excludes both $29 million of commitments for future fundings that would need to be disbursed if the borrowers meet the conditions for these fundings, as well as $69 million of commercial real estate held for sale related to foreclosed interim loans. As of December 31, 2010, these interim loans outstanding had a weighted average loan-to-value ratio of 108%, indicating that, in aggregate, the loan amount is greater than the collateral value. As of December 31, 2010, for those loans where the loan amount is greater than the collateral value, the excess of the loan amount over the collateral value is $171 million. The interim loans had a weighted average debt service coverage ratio of 1.24 times. A stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. These loans also had an allowance for losses or credit related market value losses totaling $168 million as of December 31, 2010.

Results from proprietary investing activities increased $103 million, from a loss of $70 million in 2009 to income of $33 million in 2010, primarily due to improved results in real estate and fixed income investments. Real estate proprietary investing results in 2009 reflect losses of $70 million, compared to income of $16 million in 2010, primarily reflecting the impact of declines in real estate values on co-investments and seed investments in the prior year. Results in 2009 also reflect losses of $11 million in a fixed income fund compared to zero in 2010. The Asset Management segment redeemed its entire investment in the fixed income fund as of June 30, 2009. In addition, proprietary investing fixed income investment results in 2009 included impairments of $10 million on collateralized debt obligations, which as of December 31, 2010, have an amortized cost of zero.

Results in 2010 also reflect an increase in performance-based incentive fees primarily related to institutional real estate funds. These increases were partially offset by an increase in compensation expenses and lower income related to securities lending activities.

2009 to 2008 Annual Comparison. Adjusted operating income decreased $177 million, from $232 million in 2008 to $55 million in 2009. Results of the segment s commercial mortgage activities decreased reflecting higher credit and valuation-related charges of $177 million on interim loans. Due to market conditions and the inherent risk of these loans, the underwriting of new interim loans was suspended during the third quarter of 2008. As of December 31, 2009, the principal balance of interim loans outstanding totaled $1.7 billion, which excludes both $86 million of commitments for future fundings that would need to be disbursed if the borrowers meet the conditions for these fundings, as well as $59 million of commercial real estate held for sale related to foreclosed interim loans. As of December 31, 2009, these interim loans outstanding had a weighted average loan-to-value ratio of 112%, indicating that, in aggregate, the loan amount is greater than the collateral value. As of December 31, 2009, for those loans where the loan amount is greater than the collateral value, the excess of the loan amount over the collateral value is $264 million. These loans had a weighted average debt service coverage ratio of 1.16 times. A stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. These loans also had an allowance for losses or credit related

market value losses totaling $236 million as of December 31, 2009. Results in 2009 also reflect lower transaction and performance based incentive fees, primarily related to institutional real estate funds reflecting a decline in real estate values, as well as a decrease in asset management fees primarily from retail and institutional customer assets primarily as a result of lower average asset values. In addition, results for 2009 reflect lower income related to mutual fund service fees and securities lending activities.

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

Revenues

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

	Year ended December 31,		
	2010	2009	2008
		(in millions)	
Revenues by type:			
Asset management fees by source:			
Institutional customers	$ 626	$ 511	$ 540
Retail customers(1)	353	268	307
General account	294	270	268
Total asset management fees	1,273	1,049	1,115
Incentive fees	71	49	71
Transaction fees	23	27	76
Proprietary investing	49	(41)	(128)
Commercial mortgage(2)	89	(99)	31
Total incentive, transaction, proprietary investing and commercial mortgage revenues	232	(64)	50
Service, distribution and other revenues(3)	383	272	521
Total revenues	$ 1,888	$ 1,257	$ 1,686

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

(2) Includes mortgage origination and spread lending revenues of our commercial mortgage origination and servicing business.
(3) Includes payments from Wells Fargo under an agreement dated as of July 30, 2004 implementing arrangements with respect to money market mutual funds in connection with the combination of our retail securities brokerage and clearing operations with those of Wells Fargo. The agreement extends for ten years after termination of the Wachovia Securities joint venture, which occurred on December 31, 2009. The revenue from Wells Fargo under this agreement was $66 million in 2010, $61 million in 2009 and $55 million in 2008.

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	December 31, 2010	2009
	(in billions)	
Assets Under Management (at fair market value):		
Institutional customers(1)	$ 235.3	$ 188.4
Retail customers(2)	101.2	84.4
General account	200.8	184.0
Total	$ 537.3	$ 456.8

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

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

	December 31, 2010	2009	2008
	(in millions)		
Co-Investments:			
Real Estate	$ 361	$ 370	$ 221
Fixed Income	29	14	197
Seed Investments:			
Real Estate	251	198	345
Public Equity	119	57	252
Fixed Income	102	33	52
Loans Secured by Investor Equity Commitments or Fund Assets:			
Real Estate secured by Investor Equity	2	13	179
Private Equity secured by Investor Equity	14	0	0
Real Estate secured by Fund Assets	198	276	283
Total	$ 1,076	$ 961	$ 1,529

2010 to 2009 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased $631 million, from $1,257 million in 2009 to $1,888 million in 2010. Asset management fees increased $224 million primarily from institutional and retail customer assets as a result of higher asset values from market appreciation and positive net asset flows. Commercial mortgage revenues increased $188 million primarily reflecting lower net credit and valuation-related charges on interim loans, as discussed above. Service, distribution and other revenues increased $111 million primarily from higher mutual fund service fees and assets under management, with a corresponding increase in expense. Also contributing to the increase were higher revenues in certain consolidated real estate funds, which were fully offset by higher expenses related to noncontrolling interests in these funds. Proprietary investing revenues increased $90 million reflecting improved results in real estate and fixed income investments, as discussed above. In addition, incentive fees increased $22 million primarily related to institutional real estate funds. A portion of these incentive-based fees are offset in incentive compensation expense in accordance with the terms of the contractual agreements. Certain of our incentive fees continue to be subject to positive or negative future adjustment based on cumulative fund performance in relation to specified benchmarks. As of December 31, 2010, $149 million of cumulative incentive fee revenue, net of compensation, is subject to future adjustment, compared to $150 million as of December 31, 2009. Future incentive, transaction, proprietary investing and commercial mortgage revenues will be impacted by the level and diversification of our proprietary investments, the commercial real estate market, and other domestic and international market conditions.

2009 to 2008 Annual Comparison. Revenues decreased $429 million, from $1,686 million in 2008 to $1,257 million in 2009. Service, distribution and other revenues decreased $249 million of which $97 million related to lower revenues in certain consolidated funds, which were fully offset by lower expenses related to noncontrolling interests in these funds. The remainder of the decrease in service, distribution and other revenues includes lower mutual fund service fee revenues, partially offset by expenses as discussed below, as well as a decline in revenues related to securities lending activities. Commercial mortgage revenues decreased $130 million reflecting higher credit and valuation-related charges on interim loans in 2009, as discussed above. Asset management fees decreased $66 million, primarily from the management of retail and institutional customer assets as a result of lower average asset values. In addition, transaction and incentive fees decreased $71 million primarily reflecting a decline in real estate values due to adverse real estate market conditions. A portion of these incentive-based fees are offset in incentive compensation expense in accordance with the terms of the contractual agreements. Certain of our incentive fees continue to be subject to positive or negative future adjustment based on cumulative fund performance in relation to specified benchmarks. As of December, 31, 2009, $150 million of cumulative incentive fee revenue, net of compensation, is subject to future adjustment, compared to $123 million as of December 31, 2008. In 2009, adjustments of $47 million related to previously recognized incentive fees contributed to the decline in incentive fees resulting from fund performance. Proprietary investing revenues increased $87 million reflecting a decline in losses, primarily the result of lower proprietary investing balances in 2009, including the redemption of a fixed income fund and the exiting of several equity investment funds in 2009, compared to investment losses in these funds in 2008. Real estate proprietary investing revenues decreased primarily due to the impact of lower real estate values on co-investments.

Expenses

2010 to 2009 Annual Comparison. Expenses, as shown in the table above under Operating Results, increased $199 million, from $1,202 million in 2009 to $1,401 million in 2010 primarily driven by increased compensation costs due to higher incentive compensation, in line with increased revenues, as discussed above. In addition, expenses related to revenues associated with certain consolidated real estate funds and mutual funds services increased, as discussed above.

2009 to 2008 Annual Comparison. Expenses decreased $252 million, from $1,454 million in 2008 to $1,202 million in 2009. The decrease in expenses was driven by lower revenues, as discussed above, related to performance based incentive fees, lower revenues associated with certain consolidated funds, the decline in mutual fund service fee revenue, and lower interest costs related to our reduced proprietary investing activities. In addition, compensation costs decreased primarily due to lower incentive compensation, in line with lower revenues, as well as lower headcount.

U.S. Individual Life and Group Insurance Division

Individual Life

Operating Results

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

	Year ended December 31,		
	2010	2009	2008
		(in millions)	
Operating results:			
Revenues	$ 2,815	$ 2,768	$ 2,754

Benefits and expenses	2,315	2,206	2,308
Adjusted operating income	500	562	446
Realized investment gains (losses), net, and related adjustments(1)	(39)	134	(619)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 461	$ 696	$ (173)

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

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Adjusted Operating Income

2010 to 2009 Annual Comparison. Adjusted operating income decreased $62 million, from $562 million in 2009 to $500 million in 2010. Results in 2010 included a $52 million benefit from lower amortization of net deferred policy acquisition costs and unearned revenue reserves, as well as a decrease in reserves for the guaranteed minimum death benefit feature in certain contracts, reflecting updates of our actuarial assumptions based on an annual review, compared to a $55 million benefit from the annual review in 2009. The annual reviews cover assumptions used in our estimate of total gross profits which forms the basis for amortizing deferred policy acquisition costs and unearned revenue reserves, as well as the reserve for the guaranteed minimum death benefit feature in certain contracts. Results in 2009 also included a $30 million benefit from compensation received based on multi-year profitability of third-party products we distribute. These compensation arrangements are subject to renegotiations periodically which will affect the amount of additional compensation we are eligible to receive. The largest of these arrangements was renegotiated in 2008 and the profit opportunities were reduced significantly in 2010 and beyond resulting in a benefit of less than $1 million in 2010.

Absent the effect of these items, adjusted operating income in 2010 decreased $29 million, including $33 million from mortality experience, net of reinsurance, which was slightly unfavorable relative to expected levels in the current year, compared to favorable mortality experience in the prior year. The decrease in adjusted operating income also reflects a $17 million increase in amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves, reflecting a net expense of $1 million in 2010 compared to a net benefit of $16 million in 2009, resulting from changes in our estimates of total gross profits primarily from variable products arising from separate account fund performance and policyholder experience, which are described in more detail below. This increase in amortization largely reflects the impact of equity markets on separate account fund performance in the respective periods, partially offset by the impact of policyholder persistency which in 2010 returned to levels that are more consistent with expectations. The decline in our in force block of variable life business also contributed to the decrease in adjusted operating income. Partially offsetting the decrease in adjusted operating income was higher net investment income from an increase in assets supporting our term and universal life products, growth in universal life policyholder account balances and the impact of gains in 2010 on investments in real property separate account funds compared to losses in 2009.

The changes in our estimates of total gross profits arising from separate account fund performance, as discussed above, reflects the impact on our estimate of total gross profits of the difference between our actual quarterly rate of return on separate accounts compared to our previously expected quarterly rate of return. The following table shows the actual quarterly rate of return on separate accounts for the four quarters of 2010 compared to our previously expected quarterly rate of return used in our estimate of total gross profits.

	First Quarter 2010	Second Quarter 2010	Third Quarter 2010	Fourth Quarter 2010
Actual rate of return	3.8%	(7.4)%	8.3%	7.3%
Expected rate of return	2.6%	2.6%	2.5%	2.2%

The overall actual rate of return on separate account funds for 2010 was higher than our expected rate of return which resulted in a net decrease in amortization of deferred policy acquisition costs, net of related amortization of unearned revenue reserves. The overall higher than expected market returns in 2010 resulted in an increase in total future gross profits by establishing a higher starting point for the fund balances used in estimating those profits in future periods. The increase in our estimate of total gross profits results in a lower required rate of amortization of deferred policy acquisition costs, partially offset by a lower required rate of amortization of unearned revenue reserves. The overall actual rate of return on separate account funds for 2009 was also higher than our expected rate of return resulting in a similar impact on gross profits and a net decrease in amortization. The benefit from lower amortization in 2009 was higher compared to 2010 due to a greater difference in 2009 between actual rates of return and expected rates of return. The previously expected separate account fund performance was based on our future rate of return assumption under the reversion to the mean approach, as discussed below. In addition, the net increase in amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves, includes the impact of variable product policyholder persistency that results in differences between actual gross profits for the period and the previously estimated expected gross profits for the period. The current period includes a benefit from lower amortization of deferred

policy acquisition costs, net of related amortization of unearned revenue reserves, reflecting better than expected gross profits driven by policyholder persistency which returned to levels that are more consistent with expectations, compared to an expense in 2009, reflecting a similar but opposite impact from lower than expected policyholder persistency.

We derive our near-term future rate of return assumptions using a reversion to the mean approach, a common industry practice. Under this approach, we consider actual returns over a period of time and initially adjust future projected returns over a four year period so that the assets grow at the long-term expected rate of return for the entire period. Beginning in the fourth quarter of 2008 and continuing into the fourth quarter of 2010, the projected near-term future annual rate of return calculated using the reversion to the mean approach for most variable policies was greater than our near-term maximum future rate of return assumption across all asset types for this business. In those cases, we utilized the near-term maximum future rate of return over the four year period, thereby limiting the impact of the reversion to the mean on our estimate of total gross profits. The near-term blended maximum future rate of return under the reversion to mean approach was 9.8% for 2010. Included in the blended maximum future rate are assumptions for returns on various asset classes, including a 5.7% annual weighted average rate of return on fixed income investments and a 13% annual maximum rate of return on equity investments. As of the end of the fourth quarter of 2010, the projected near-term future annual rate of return calculated using the reversion to the mean approach for most variable policies was lower than our near-term maximum future rate of return assumption across all asset types for this business. In those cases, we utilized the projected near-term future rate of return over the four year period which was 8.6% as of December 31, 2010.

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

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

The benefit of $55 million in 2009 related to the annual review of assumptions reflects higher investment spread assumptions and improved future mortality expectations, partially offset by updates to interest rate assumptions which increased the reserve for the guaranteed minimum death benefit features in certain contracts. In addition, the review of assumptions in 2009 reflects a reduction in our future rate of return assumption, which reduced the benefit to the amortization of deferred policy acquisition costs net of related amortization on unearned revenue reserves. The benefit of $79 million in 2008 primarily reflects improved future mortality expectations. As mentioned above, we derive our near-term future rate of return assumptions using a reversion to

the mean approach, a common industry practice. The near-term maximum future rate of return under the reversion to mean approach was reduced in third quarter of 2009 from 10.9% to 10.1% as part of our annual assumption review. Included in this revised blended maximum future rate are assumptions for returns on various asset classes, including a 13% annual maximum rate of return on equity investments.

Revenues

2010 to 2009 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased $47 million, from $2,768 million in 2009 to $2,815 million in 2010. Net investment income increased $94 million, due to an increase in assets supporting our term and universal life products and growth in universal life and variable policyholder account balances due to increased policyholder deposits, as well as gains in 2010 on investments in real property separate account funds compared to losses in 2009. Premiums increased $28 million, primarily due to growth of our in force block of term insurance. Policy charges and fees and asset management fees and other income decreased $75 million including a $31 million decrease in amortization of unearned revenue reserves due to annual reviews of assumptions, and a $30 million decrease in compensation received based on multi-year profitability of third-party products we distribute, as discussed above. Absent these items policy charges and fees and asset management fees and other income decreased $14 million, driven by a decrease in amortization of unearned revenue reserves reflecting the impact of policyholder persistency which, in 2010, returned to levels more consistent with expectations and mortality experience, partially offset by an increase in the amortization of unearned revenue reserves from the impact of less favorable market conditions on separate account fund performance in 2010. The decrease in policy charges and fees and asset management fees and other income also reflected higher costs on net settlements of interest rate swaps associated with our floating rate debt due to lower interest rates in 2010, offset by lower interest expense, as discussed below, partially offset by an increase in asset management fees resulting from higher separate account fund balances.

2009 to 2008 Annual Comparison. Revenues increased $14 million, from $2,754 million in 2008 to $2,768 million in 2009. Premiums increased $73 million, primarily due to growth of our in force block of term insurance. Net investment income increased $60 million, reflecting higher asset balances primarily from the financing of statutory reserves required for certain term and universal life insurance policies and growth in universal life account balances due to increased policyholder deposits. Policy charges and fees and asset management fees and other income decreased $119 million, including a $26 million decrease in compensation received based on multi-year profitability of third-party products we distribute and an increase of $11 million related to the amortization of unearned revenue reserves due to the annual review of assumptions in both periods, as discussed above. Absent these items policy charges and fees and asset management fees and other income decreased $104 million, primarily reflecting lower net settlements on interest rate swaps including those used to manage duration, lower amortization of unearned revenue reserves reflecting the impact of more favorable equity markets on variable product separate account fund performance, and lower asset based fees due to lower average separate account asset balances in 2009 reflecting the unfavorable impact of equity market performance in late 2008 and early 2009.

Benefits and Expenses

2010 to 2009 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $109 million, from $2,206 million in 2009 to $2,315 million in 2010. Absent the net $28 million decrease from the impacts of the annual reviews conducted in both periods, benefits and expenses increased $137 million, from $2,331 million in 2009 to $2,468 million in 2010. Excluding the impact of the annual reviews, policyholders benefits, including interest credited to policyholders, increased $141 million due to growth in universal life and variable policyholder account balances, increases in policyholder reserves, and expected claim costs associated with growth in our in force block of term and universal life business. In addition, mortality experience was slightly unfavorable, relative to expected levels in 2010, compared to favorable mortality experience in 2009 contributing $33 million to the increase in policyholder benefits. Also excluding the impact of the annual reviews, amortization of deferred policy acquisition costs increased $23 million primarily due to the less favorable impact of equity markets on separate account fund performance, partially offset by both the impact of policyholder persistency which in 2010 returned to levels more consistent with expectations, as well as mortality experience. Partially offsetting these items was a decrease in interest expense of $19 million primarily driven by a decline in interest rates on floating rate debt. This floating rate debt is swapped to a fixed rate using interest rate swaps, as discussed above.

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2009 to 2008 Annual Comparison. Benefits and expenses decreased $102 million, from $2,308 million in 2008 to $2,206 million in 2009. Absent the impacts of the annual reviews conducted in both periods, as discussed above, benefits and expenses decreased $137 million, from $2,468 million in 2008 to $2,331 million in 2009. On this basis, amortization of deferred policy acquisition costs decreased $203 million, primarily reflecting the impact of more favorable equity markets in the second half of 2009 on variable product separate account fund performance, which was partially offset by the impact of unfavorable equity markets in late 2008 and early 2009 on variable product policy persistency in early 2009. Also on this basis, policyholders benefits, including interest credited to policyholders account balances, increased $85 million, reflecting increased policyholder reserves associated with growth in our in force block of term insurance and an increase in interest credited to policyholders account balances due to growth in universal life account balances from increased policyholder deposits, partially offset by improved mortality experience compared to 2008, relative to expected levels.

Sales Results

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

	Year ended December 31,		
	2010	2009	2008
		(in millions)	
Annualized New Business Premiums(1):			
Variable Life	$ 23	$ 20	$ 39
Universal Life	77	113	83
Term Life	160	226	209
Total	$ 260	$ 359	$ 331
Annualized new business premiums by distribution channel(1):			
Prudential Agents	$ 84	$ 95	$ 109
Third party	176	264	222
Total	$ 260	$ 359	$ 331

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

2010 to 2009 Annual Comparison. Sales of new life insurance, measured as described above, decreased $99 million, from $359 million in 2009 to $260 million in 2010. The decrease in sales is primarily due to a $66 million decrease in term life product sales and a $36 million decrease in sales of universal life products driven by lower third party distribution sales. Sales from the third party distribution channel were $88 million lower than 2009 due to lower sales of universal life and term life products, both of which were impacted by price increases implemented in 2009. Sales by Prudential Agents were $11 million lower than 2009 primarily due to lower sales of both universal life products and term life products. The number of Prudential Agents increased from 2,447 at December 31, 2009 to 2,471 at December 31, 2010.

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

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Policy Surrender Experience

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

	Year ended December 31,		
	2010	2009	2008
		($ in millions)	
Cash value of surrenders	$ 697	$ 855	$ 802
Cash value of surrenders as a percentage of mean future benefit reserves, policyholders account balances, and separate account balances	3.0%	4.2%	3.8%

2010 to 2009 Annual Comparison. The total cash value of surrenders decreased $158 million, from $855 million in 2009 to $697 million in 2010, as surrenders in 2010 returned to levels that are more consistent with expectations compared to 2009. The prior year reflects a greater volume of surrenders, including lapses to extended term, of variable life insurance, due primarily to market conditions at the time and policyholders electing to surrender their policies rather than make premium payments or the contractually required deposits needed to keep the policies in force. The level of surrenders as a percentage of mean future policy benefit reserves, policyholders account balances and separate account balances decreased from 4.2% in 2009 to 3.0% in 2010, driven by a decrease in the total cash value of surrenders as described above, as well as higher average account balances primarily driven by market appreciation over the past twelve months.

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

Group Insurance

Operating Results

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

	Year ended December 31,		
	2010	2009	2008
		(in millions)	
Operating results:			
Revenues	$ 5,458	$ 5,285	$ 4,960
Benefits and expenses	5,243	4,954	4,620

Adjusted operating income	215	331	340
Realized investment gains (losses), net, and related adjustments(1)	(21)	(227)	(201)
Related charges(2)	(1)	(7)	(1)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 193	$ 97	$ 138

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

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

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Adjusted Operating Income

2010 to 2009 Annual Comparison. Adjusted operating income decreased $116 million, from $331 million in 2009 to $215 million in 2010. Results reflected a net benefit of $28 million in 2010, from reserve refinements in both the group life and group disability businesses, including the impact of annual reviews, compared to a net benefit of zero in 2009. Excluding this item, adjusted operating income decreased $144 million primarily reflecting less favorable underwriting results in 2010 on group life non-retrospectively experience-rated business largely due to the lapse of certain business and repricing of other business up for renewal with favorable claims experience in 2009, reflecting the competitive market, as well as less favorable claims experience due to an increase in the number and severity of claims. In addition, underwriting results reflect less favorable long-term disability claims experience in 2010 consistent with the economic downturn. Also contributing to the decrease in adjusted operating income were higher operating expenses primarily to support disability operations and expansion into the group dental market, and an unfavorable impact from the refinement of a premium tax estimate.

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

Revenues

2010 to 2009 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased by $173 million, from $5,285 million in 2009 to $5,458 million in 2010. Group life premiums and policy charges and fee income increased by $125 million, from $3,414 million in 2009 to $3,539 million in 2010, primarily reflecting higher premiums from retrospectively experience-rated group life business resulting from the increase in policyholder benefits on these contracts as discussed below. Also contributing to the increase were higher premiums from non-retrospectively experience-rated group life business primarily reflecting growth of business in force resulting from new sales, partially offset by a decrease in premiums associated with the assumption of existing liabilities from third parties, as well as the lapse of certain business and repricing of other business up for renewal, as discussed above. Group disability premiums and policy charges and fee income, which include long-term care and dental products, increased by $25 million, from $1,121 million in 2009 to $1,146 million in 2010. This increase primarily reflects higher premiums due to growth of business in force resulting from new sales, and continued strong persistency of 92.1% in 2010 compared to 90.9% in 2009, partially offset by a decrease in premiums associated with the assumption of existing liabilities from third parties.

2009 to 2008 Annual Comparison. Revenues increased by $325 million, from $4,960 million in 2008 to $5,285 million in 2009. Group life premiums and policy charges and fee income, increased by $182 million, from $3,232 million in 2008 to $3,414 million in 2009. This increase primarily reflects growth of business in force resulting from new sales, and continued strong persistency of 94.3% in 2009 compared to 93.3% in 2008. Also contributing to this increase were higher premiums from retrospectively experience-rated group life business resulting from the increase in policyholder benefits on these contracts, as discussed below. Partially offsetting the increase in group life premiums is the premium adjustment recorded in 2008 as discussed above. Group disability premiums and policy charges and fee income, which include long-term care products, increased by $126 million, from $995 million in 2008 to $1,121 million in 2009. This increase primarily reflects growth of business in force resulting from new sales, and continued strong persistency of 90.9% in 2009 compared to 85.6% in 2008.

Benefits and Expenses

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

	Year ended December 31,		
	2010	2009	2008
Benefits ratio(1):			
Group life	89.7%	88.4%	88.6%
Group disability	94.7%	88.9%	87.2%
Administrative operating expense ratio(2):			
Group life	8.8%	9.0%	8.6%
Group disability	21.3%	18.3%	19.8%

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

2010 to 2009 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased by $289 million, from $4,954 million in 2009 to $5,243 million in 2010. This increase reflects a $242 million increase in policyholders benefits, including the change in policy reserves, from $4,016 million in 2009 to $4,258 million in 2010, reflecting greater benefit costs on both group life and group disability businesses. Our group life business reflected greater benefit costs from less favorable claims experience, including an increase in benefits on retrospectively experience-rated business that resulted in increased premiums, partially offset by the benefit of reserve refinements in 2010 and a decrease in policyholder benefits associated with the assumption of existing liabilities from third parties. Our group disability business also reflected less favorable claims experience, partially offset by a decrease in policyholder benefits associated with the assumption of existing liabilities from third parties. Also contributing to the increase in benefits and expenses were higher operating expenses, as discussed above.

The group life benefits ratio deteriorated 1.3 percentage points from 2009 to 2010, due to less favorable claims experience due to an increase in the number and severity of claims, as well as the lapse of certain business and repricing of other business up for renewal with favorable claims experience in 2009, reflecting the competitive market, partially offset by the favorable impact of the reserve refinements. The group disability benefits ratio deteriorated 5.8 percentage points from 2009 to 2010, primarily due to less favorable long-term disability claims experience combined with an unfavorable impact from reserve refinements, including the impact of the annual reviews. The group life administrative operating expense ratio was relatively unchanged from 2009 to 2010. The group disability administrative operating expense ratio deteriorated 3.0 percentage points from 2009 to 2010, primarily due to higher costs to support disability operations and expansion into the group dental market, lower premiums associated with the assumption of existing liabilities from third parties, as well as an unfavorable impact from the refinement of a premium tax estimate.

2009 to 2008 Annual Comparison. Benefits and expenses increased by $334 million, from $4,620 million in 2008 to $4,954 million in 2009. This increase reflects a $283 million increase in policyholders benefits, including the change in policy reserves, from $3,733 million in 2008 to $4,016 million in 2009, reflecting growth of business in force and greater benefits on retrospectively experience-rated group life business that resulted in increased premiums as discussed above. Also contributing to the increase in benefits and expenses were higher operating expenses primarily related to business growth, as well as a lower benefit in 2009 of the group disability reserve refinements discussed above.

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

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Sales Results

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

	Year ended December 31,		
	2010	2009	2008
		(in millions)	
Annualized new business premiums(1):			
Group life	$ 446	$ 339	$ 288
Group disability(2)	161	238	204
Total	$ 607	$ 577	$ 492

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

2010 to 2009 Annual Comparison. Total annualized new business premiums increased $30 million, from $577 million in 2009 to $607 million in 2010. Group life sales increased $107 million driven primarily by increased large case sales to new customers, partially offset by lower premiums associated with the assumption of existing liabilities from third parties during 2010. Group disability sales decreased $77 million primarily due to lower sales of large case disability products to both new and existing customers, as well as a decrease in long-term care sales.

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

International Insurance and Investments Division

Impact of foreign currency exchange rate movements on earnings

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

Forward currency hedging program

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

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

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

	Year ended December 31,		
	2010	2009	2008
		(in millions)	
Impact on revenues and adjusted operating income:			
International Insurance	$ (101)	$ (37)	$ 6
International Investments	2	2	0
Total International Insurance and Investments Division	$ (99)	$ (35)	$ 6

Results of Corporate and Other operations include any differences between the translation adjustments recorded by the segments and the gains or losses recorded from the forward currency contracts that settled during the period, which includes the impact of any over or under hedging of actual earnings as a result of projected earnings differing from actual earnings. The net impact of this program recorded within the Corporate and Other operations were gains of $6 million, $3 million and $5 million for the years ended December 31, 2010, 2009 and 2008, respectively.

The notional amounts of these forward currency contracts were $3.0 billion and $2.7 billion as of December 31, 2010 and 2009, respectively, of which $2.5 billion and $2.0 billion as of December 31, 2010 and 2009, respectively, related to our Japanese insurance operations.

Dual currency and synthetic dual currency investments

In addition, our Japanese insurance operations also hold dual currency investments in the form of fixed maturities and loans. The principal of these dual currency investments are yen-denominated while the related interest income is U.S. dollar denominated. These investments are the economic equivalent of exchanging what would otherwise be fixed streams of yen-denominated interest income for fixed streams of U.S. dollar interest income. Our Japanese insurance operations also hold yen-denominated investments that have been coupled with cross-currency coupon swap agreements, creating synthetic dual currency investments. The yen/U.S. dollar exchange rate is effectively fixed, as we are obligated in future periods to exchange fixed amounts of Japanese yen interest payments generated by the yen-denominated investments for U.S. dollars at the yen/U.S. dollar exchange rates specified by the cross-currency coupon swap agreements. As of December 31, 2010 and 2009, the notional amount of these investments was ¥357 billion, or $3.2 billion, and ¥430 billion, or $3.8 billion, respectively, based upon the foreign currency exchange rates applicable at the time these investments were acquired. For the years ended December 31, 2010, 2009 and 2008, the weighted average yield generated by these investments was 2.8%, 2.9% and 2.3%, respectively.

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Presented below is the fair value of these instruments as reflected on our balance sheet at December 31:

	2010	2009
	(in millions)	
Cross-currency coupon swap agreements	$ (132)	$ (66)
Foreign exchange component of interest on dual currency investments	(114)	(100)
Total	$ (246)	$ (166)

The table below presents as of December 31, 2010, the yen-denominated earnings subject to our dual currency and synthetic dual currency investments and the related weighted average exchange rates resulting from these investments.

Year	(1) Interest component of dual currency investments	Cross-currency coupon swap element of synthetic dual currency investments	Total Yen-denominated earnings subject to these investments	Weighted average forward exchange rate per U.S. Dollar
		(in billions)		(Yen per $)
2011	¥ 3.4	¥ 3.9	¥ 7.3	85.3
2012	3.1	2.9	6.0	83.0
2013	2.9	2.5	5.4	81.6
2014-2034	30.4	51.1	81.5	79.2
Total	¥39.8	¥60.4	¥100.2	80.0

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

The present value of the earnings reflected in the table above, on a U.S. dollar denominated basis, is $0.9 billion as of December 31, 2010. The table above does not reflect the forward currency income hedging program discussed above. In establishing the level of yen-denominated earnings that will be hedged through the forward currency income hedging program we take into account the anticipated level of U.S. dollar denominated earnings that will be generated by dual currency and synthetic dual currency investments, as well as the anticipated level of U.S. dollar denominated earnings that will be generated by U.S. dollar denominated products and investments, which are discussed in greater detail below.

Impact of foreign currency exchange rate movements on equity

Hedges of U.S. GAAP equity and available economic capital

We also seek to mitigate the risk that future unfavorable foreign currency exchange rate movements will reduce our U.S. dollar equivalent equity in foreign subsidiaries through various hedging strategies. We continue to refine our current capital management framework, and as we further develop this framework, or as other events occur, we may alter this strategy. Available economic capital represents the excess of the fair value of assets over the fair value of liabilities for the current in force block of business. In our Japanese insurance operations we currently seek to hedge a portion of estimated available economic capital, including the amount attributable to the U.S. GAAP equity of our Japanese insurance operations, which totaled $5.7 billion as of December 31, 2010 excluding Accumulated other comprehensive income (loss) components of equity and certain other adjustments. We hedge a portion of the estimated available economic capital in our Japanese insurance operations through a variety of instruments, including U.S. dollar denominated assets. These assets are financed with yen-denominated liabilities and equity held in our Japanese insurance operations. In addition, we may also hedge estimated available economic capital using instruments held in our U.S. domiciled entities, such as U.S. dollar denominated debt that has been swapped to yen. In our Taiwan insurance operation, the U.S. GAAP equity exposure is mitigated by holding a variety of instruments, including U.S. dollar denominated investments. During 2009, we terminated our hedges of the U.S. GAAP equity exposure of our Korean operations due to a variety of considerations, including a desire to limit the potential for cash settlement outflows that would result from a strengthening Korean won. For the same reasons, during the third quarter of 2010, we also terminated our hedges of the U.S. GAAP equity exposure for all of our other foreign operations, excluding our Japan and Taiwan insurance operations.

As of December 31, 2010, the aggregate amount of the instruments serving as hedges of our estimated available economic capital, which includes the $5.7 billion attributable to the U.S. GAAP equity of our Japanese insurance operations discussed above, amounted to $7.0 billion, unchanged from the amount hedged as of December 31, 2009. These instruments were principally comprised of available for sale U.S. dollar denominated investments with an amortized cost of $5.6 billion and held to maturity U.S. dollar denominated investments with an amortized cost of $0.5 billion held in our Japanese insurance operations, as well as $0.8 billion of net yen-denominated liabilities held in our U.S. domiciled entities, including a portion that has been converted to yen using swaps. The effects of the yen-denominated liabilities are reported in Corporate and Other operations. These amounts do not reflect the forward currency income hedging program or dual currency and synthetic dual currency investments discussed above, which when added to the $7.0 billion of instruments serving as an equity hedge of a portion of the estimated available economic capital, results in a total estimated available economic capital hedge of approximately $10.4 billion as of December 31, 2010. In addition, as discussed below, we have $10.3 billion of U.S. dollar assets supporting U.S. dollar liabilities related to U.S. dollar denominated products issued by our Japanese operations, which when added to the $10.4 billion of total estimated available economic capital hedge, results in total U.S. dollar instruments of approximately $20.7 billion as of December 31, 2010.

Available for sale investments under U.S. GAAP are carried at fair value with unrealized changes in fair value (except as described below for impairments), including those from changes in foreign currency exchange rate movements, recorded as unrealized gains or losses in Accumulated other comprehensive income (loss). Changes in the U.S. GAAP equity of our Japanese insurance operations due to foreign currency exchange rate movements are also recorded in Accumulated other comprehensive income (loss) as a Foreign currency translation adjustments, and can serve as an offset to the unrealized changes in fair value of the available for sale investments. For the portion of available for sale investments that support our Japanese insurance operations U.S. GAAP equity this offset creates a natural equity hedge. For those U.S. dollar denominated investments, including available for sale investments, that support the portion of estimated available economic capital above our U.S. GAAP equity there is no offsetting impact to equity. In addition, the impact of foreign currency exchange rate movements on the U.S. GAAP equity of our Japanese insurance operations is partially offset by foreign currency exchange related changes in designated Yen-denominated debt and other hedging instruments held in our U.S. domiciled entities and recorded in Accumulated other comprehensive income (loss) as a Foreign currency translation adjustments.

The investments designated as held to maturity under U.S. GAAP are recorded at amortized cost on the balance sheet, but are remeasured for foreign currency exchange rate movements, with the related change in value recorded within Asset management fees and other income. The remeasurement related to the change in value for foreign currency exchange rate movements for these investments is excluded from adjusted operating income, as part of our application of the hedge of available economic capital.

The U.S. dollar denominated investments that hedge a portion of our estimated available economic capital in our Japanese insurance operations pay a coupon, which is reflected within Net investment income, and, therefore, included in adjusted operating income, which is approximately 200 to 300 basis points greater than what a similar yen-based investment would pay. The incremental impact of this higher yield on our U.S. dollar denominated investments, as well as our dual currency and synthetic dual currency investments discussed above, will vary over time, and is dependent on the duration of the underlying investment, as well as interest rate environments in the U.S. and Japan at the time of the investment. See Realized Investment Gains and Losses and General Account Investments General Account Investments Investment Results for a discussion of the investment yields generated by our Japanese insurance operations.

For U.S. dollar denominated investments recorded on the books of yen-based entities, foreign currency exchange movements, including those reflected in the forward curve at the time of purchase of these investments will impact their value. To the extent the value of the yen strengthens as compared to the U.S. dollar, the value of these U.S. dollar denominated investments will decrease as a result of changes in the foreign currency exchange rates. Upon the ultimate sale or maturity of the U.S. dollar denominated investments, any realized change in value related to changes in the foreign currency exchange rates will be included in Realized investment gains (losses), net within the income statement and, excluded from adjusted operating income. Similarly, other-than-temporary impairments on these investments may include the impact of changes in foreign currency exchange rates, which in certain circumstances will be included in Realized investment gains (losses), net within the income statement, and, as such, excluded from adjusted operating income. See Realized Investment Gains and Losses and General Account Investments General Account Investments Fixed Maturity Securities Other-than-Temporary Impairments of Fixed Maturity Securities for a discussion of our policies regarding impairments. We seek to mitigate the risk that future unfavorable foreign currency exchange rate movements will decrease the value of our U.S. dollar denominated investments and negatively impact the equity of our yen-based entities by employing internal hedging strategies between a subsidiary of Prudential Financial and certain of our yen-based entities. See Liquidity and Capital Resources Liquidity and Capital Resources of Subsidiaries International Insurance and Investments Subsidiaries for a discussion of our internal hedging strategies.

We also incorporate the impact of foreign currency exchange rate movements on the remaining U.S. dollar denominated net asset position of our Japanese insurance operations, which primarily relates to accrued investment income, as part of our overall application of the hedge of available economic capital. These U.S. dollar denominated assets and liabilities are remeasured for foreign currency exchange rate movements, as they are non-yen denominated items on the books of yen-based entities, and the related change in value is recorded within Asset management fees and other income. As these U.S. dollar denominated assets and liabilities are included in the determination of the Japanese insurance operations level of available economic capital, we exclude all remeasurement related to these items from adjusted operating income.

In addition, as of December 31, 2010 and 2009, our international insurance operations also had $9.7 billion and $7.7 billion, respectively, of foreign currency exposure from U.S. dollar liabilities for U.S. dollar denominated products issued by these operations. A portion of these liabilities are coinsured to our U.S. domiciled insurance operations and supported by U.S. dollar denominated assets. For the U.S. dollar liabilities retained in Japan, our Japanese operations hold U.S. dollar denominated investments, including a significant portion that are designated as available for sale, and other related U.S. dollar denominated net assets, primarily accrued investment income, to support these products. The change in value due to changes in foreign currency exchange rate movements, or remeasurement, of the related U.S. dollar denominated assets and liabilities associated with these products is excluded from adjusted operating income.

International Insurance

The results of our International Insurance operations are translated on the basis of weighted average monthly exchange rates, inclusive of the effects of the intercompany arrangement discussed above. To provide a better understanding of operating performance within the International Insurance segment, where indicated below, we have analyzed our results of operations excluding the effect of the year over year change in foreign currency exchange rates. Our results of operations excluding the effect of foreign currency fluctuations were derived by translating foreign currencies to U.S. dollars at uniform exchange rates for all periods presented, including for constant dollar information discussed below. The exchange rates used were Japanese yen at a rate of 92 yen per U.S. dollar and Korean won at a rate of 1190 won per U.S. dollar. In addition, for constant dollar information discussed below, activity denominated in U.S. dollars is reported based on the amounts as transacted in U.S. dollars. Annualized new business premiums presented on a constant exchange rate basis in the Sales Results section below reflect translation based on these same uniform exchange rates.

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Operating Results

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

	Year ended December 31, 2010	2009 (in millions)	2008
Operating results:			
Revenues:			
Life Planner operations	$ 7,266	$ 6,443	$ 6,022
Gibraltar Life	4,823	4,023	3,163
	12,089	10,466	9,185
Benefits and expenses:			
Life Planner operations	5,997	5,222	4,897
Gibraltar Life	4,035	3,401	2,541
	10,032	8,623	7,438
Adjusted operating income:			
Life Planner operations	1,269	1,221	1,125
Gibraltar Life	788	622	622
	2,057	1,843	1,747
Realized investment gains (losses), net, and related adjustments(1)	(317)	(790)	149
Related charges(2)	(15)	56	27
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	33	68	(370)
Change in experience-rated contractholder liabilities due to asset value changes(4)	(33)	(68)	370
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(5)	(68)	2	0
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 1,657	$ 1,111	$ 1,923

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

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

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

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

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

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

On February 1, 2011, Prudential Financial completed the acquisition from American International Group, Inc., or AIG, of AIG Star Life Insurance Co., Ltd., or Star, AIG Edison Life Insurance Company, or Edison, and certain other AIG subsidiaries pursuant to the stock purchase agreement dated September 30, 2010 between Prudential Financial and AIG. The total purchase price was approximately $4.8 billion, comprised of approximately $4.2 billion in cash and $0.6 billion in assumed third party debt, substantially all of which is expected to be repaid, over time, with excess capital of the acquired entities. All acquired entities are Japanese corporations and their businesses are in Japan.

The acquired businesses distribute individual life insurance, group life insurance, group annuities, medical insurance, and fixed annuities primarily through captive agents, independent agents, and banks. As of December 31, 2010, these businesses had approximately $174 billion face amount of in force individual insurance and approximately 7,490 captive agents. We anticipate that the invested assets attributed to these businesses will increase the invested assets of our Japanese operations by about half. The addition of these operations to our existing businesses will increase our scale in the Japanese insurance market and provide complementary distribution opportunities. We also expect these businesses to provide attractive returns primarily driven from in force business and cost synergies. Star and Edison s bank channel distribution will be transferred and integrated with Prudential Gibraltar Financial. In addition, we expect to integrate the core operations of Star and Edison, excluding their bank channel distribution, with our Gibraltar Life operations by early 2012, subject to local regulatory approvals. We expect pre-tax integration costs of approximately $500 million to be incurred over a five year period, including approximately $400 million during 2011 and 2012. After the integration is completed, we expect annual cost savings of approximately $250 million. Actual integration costs may exceed, and actual costs savings may fall short of, such expectations.

Acquisition of Yamato Life

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

Adjusted Operating Income

2010 to 2009 Annual Comparison. Adjusted operating income from Life Planner operations increased $48 million, from $1,221 million in 2009 to $1,269 million in 2010, including a net favorable impact of $11 million from currency fluctuations. Excluding the impact of currency fluctuations, adjusted operating income increased $37 million primarily reflecting the growth of business in force and continued strong persistency in our Japanese Life Planner operation, partially offset by an unfavorable variance of $27 million, reflecting the impact of a $6 million net charge in 2010 and a $21 million net benefit in 2009 from reserve refinements related to the implementation of a new policy valuation system. Also impacting adjusted operating income is a $6 million lower benefit in the current year from a reduction in amortization of deferred policy acquisition costs primarily reflecting improved mortality assumptions, which benefited both periods, associated with our annual review of estimated gross profits used to amortize deferred policy acquisition costs.

Gibraltar Life s adjusted operating income increased $166 million, from $622 million in 2009 to $788 million in 2010, including a favorable impact of $22 million from currency fluctuations. In December 2010, a consortium of investors including Prudential that holds a minority interest in China Pacific Insurance (Group) Co., Ltd sold approximately 16% of its holdings, which contributed a pre-tax gain of $66 million to results. Prudential s participation in the consortium is viewed as part of its strategic approach to China. Absent the effect of this item and the impact of currency fluctuations, adjusted operating income increased $78 million, primarily reflecting the continued growth in our fixed annuity products, which are primarily denominated in U.S. dollars, and growth in protection products driven by expanding bank channel distribution, as well as a higher contribution from non-coupon investments. Results for 2010 also include $11 million of expenses associated with the acquisition of the Star and Edison Businesses which were more than offset by a lower level of benefits and expenses including the absence of net charges of $5 million related to a 2009 guaranty fund assessment and net charges of $8 million in 2009 from unfavorable reserve refinements related to the implementation of a new policy valuation system.

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In the first quarter of 2011, the consortium of investors, discussed above, sold approximately 40% of its remaining holdings in China Pacific Insurance (Group) Co., Ltd., which will contribute a pre-tax gain of $153 million to our 2011 results.

2009 to 2008 Annual Comparison. Adjusted operating income from Life Planner operations increased $96 million, from $1,125 million in 2008 to $1,221 million in 2009, including a net unfavorable impact of $5 million from currency fluctuations. This increase in adjusted operating income primarily reflects the continued growth of our Japanese Life Planner operation, as well as more favorable mortality experience and improved investment income margins. The improved investment income margins primarily reflect investment portfolio growth in our U.S. dollar denominated products in Japan. In addition, adjusted operating income benefited by $21 million in 2009 due to the migration to a new policy valuation system that resulted in favorable refinements in the current year. Partially offsetting these items was increased general and administrative expenses due primarily to $12 million of expenses recorded in 2009 related to an on-going initiative in Japan to enhance our information processes and technology systems in order to improve efficiency and lower costs.

Gibraltar Life s adjusted operating income was $622 million in both 2008 and 2009, with no impact from currency fluctuations. Results for 2009 benefited from $36 million of earnings from the acquired former business of Yamato Life, as discussed above. The earnings from the acquired business include approximately $19 million related to initial surrenders of policies following the restructuring of business, essentially consistent with our overall expectations. Offsetting these items is a decline in expense and other margins, which reflects higher general and administrative expenses, due primarily to $18 million of expenses recorded in 2009 related to an on-going initiative in Japan to enhance our information processes and technology systems in order to improve efficiency and lower costs. Results for 2009 also include net charges of $8 million due to the migration to a new policy valuation system that resulted in unfavorable refinements in the current period. In addition, adjusted operating income benefited in 2009 from higher earnings as a result of growth in our fixed annuity products, which are primarily denominated in U.S. dollars, partially offset by a decline in investment income margins reflecting actions taken to reduce our risk exposure.

Revenues

2010 to 2009 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased $1,623 million, from $10,466 million in 2009 to $12,089 million in 2010, including a net favorable impact of $501 million relating to currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $1,122 million, from $10,764 million in 2009 to $11,886 million in 2010.

Revenues from our Life Planner operations increased $823 million, from $6,443 million in 2009 to $7,266 million in 2010, including a net favorable impact of $312 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $511 million, from $6,597 million in 2009 to $7,108 million in 2010. This increase in revenues came primarily from increases in premiums and policy charges and fee income of $349 million, from $5,438 million in 2009 to $5,787 million in 2010. Premiums and policy charges and fee income from our Japanese Life Planner operation increased $263 million, from $4,101 million in 2009 to $4,364 million in 2010, primarily reflecting growth of business in force and continued strong persistency, partially offset by a benefit recognized in the prior year from the migration to a new policy valuation system discussed above. Net investment income increased $125 million, from $1,091 million in 2009 to $1,216 million in 2010, primarily due to investment portfolio growth, partially offset by lower yields in our Japanese investment portfolio compared to the prior year.

Revenues from Gibraltar Life increased $800 million, from $4,023 million in 2009 to $4,823 million in 2010, including a favorable impact of $189 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues for Gibraltar Life increased $611 million, from $4,167 million in 2009 to $4,778 million in 2010. This increase reflects a $423 million increase in premiums, from $2,911 million in 2009 to $3,334 million in 2010, as premiums benefited from $50 million of renewal premiums from the acquisition of Yamato, higher first year premiums of $229 million due to stronger sales of protection products primarily through our bank distribution channels, as well as $173 million in higher sales of single premium whole life. Partially offsetting these favorable variances in premiums was a decrease of $101 million, reflecting the completion of the special dividend arrangement in the second quarter of 2010 established as part of Gibraltar Life s reorganization in 2001.

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Substantially all of the premiums recognized as additional face amounts of insurance issued pursuant to the special dividend arrangement were offset by a corresponding charge to increase reserves for the affected policies. Also contributing to the increase in revenues is favorable investment income reflecting the continued growth of our fixed annuity products and higher other income primarily reflecting the pre-tax gain of $66 million related to the partial sale of our indirect investment in China Pacific Insurance (Group) Co., Ltd discussed above.

Due to the long-term nature of many of the products we sell in Japan, we have historically sought to increase the duration of our Japanese yen investment portfolio by employing various strategies, including investing in longer-term securities or, by entering into long-duration floating-to-fixed interest rate swaps. These strategies better support the characteristics of our long-dated product liabilities and have resulted in higher portfolio yields. Based on an evaluation of market conditions, beginning in the fourth quarter of 2008 and continuing into the first quarter of 2009, we terminated or offset many of these interest rate swaps in consideration of, among other things, the interest rate environment. The resulting realized investment gains from terminating or offsetting these interest rate swaps will be recognized in adjusted operating income over periods that generally approximate the expected terms of the derivatives. For 2010, 2009 and 2008, we recognized gains of $38 million, gains of $30 million, and losses of $14 million, respectively, in adjusted operating income related to these realized investment gains (losses). As of December 31, 2010, $712 million of deferred gains remain to be recognized in adjusted operating income over a weighted average period of 30 years. We continue to manage the interest rate risk profile of our businesses in the context of market conditions and relative opportunities, and will implement these hedging strategies to lengthen the duration of our Japanese investment portfolio as our assessment of market conditions dictates. As we do so, the impact to our portfolio yields will depend on the then current interest rate environment.

2009 to 2008 Annual Comparison. Revenues increased $1,281 million, from $9,185 million in 2008 to $10,466 million in 2009, including a net favorable impact of $282 million relating to currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $999 million, from $9,765 million in 2008 to $10,764 million in 2009.

Revenues from our Life Planner operations increased $421 million, from $6,022 million in 2008 to $6,443 million in 2009, including a net favorable impact of $39 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $382 million, from $6,215 million in 2008 to $6,597 million in 2009. This increase in revenues came primarily from increases in premiums and policy charges and fee income of $237 million, from $5,201 million in 2008 to $5,438 million in 2009. Premiums and policy charges and fee income from our Japanese Life Planner operation increased $199 million, from $3,902 million in 2008 to $4,101 million in 2009, primarily reflecting growth of business in force from new sales and continued strong persistency. Net investment income also increased $106 million, from $985 million in 2008 to $1,091 million in 2009, primarily due to investment portfolio growth in our U.S. dollar denominated products in Japan.

Revenues from Gibraltar Life increased $860 million, from $3,163 million in 2008 to $4,023 million in 2009, including a favorable impact of $243 million from currency fluctuations. Excluding the impact of currency fluctuations, revenues for Gibraltar Life increased $617 million, from $3,550 million in 2008 to $4,167 million in 2009. This increase reflects a $489 million increase in premiums, from $2,422 million in 2008 to $2,911 million in 2009, as premiums benefited $156 million from additional face amounts of insurance issued pursuant to the final payment under a special dividend arrangement established as part of Gibraltar Life s reorganization in 2001 for which 2008 includes no such benefit. Substantially all of the premiums recognized pursuant to the special dividend arrangement were offset by a corresponding charge to increase reserves for the affected policies. Also reflected in premiums is $97 million of renewal premiums from the acquisition of Yamato, as well as higher sales of single premium whole life during 2009.

Benefits and Expenses

2010 to 2009 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $1,409 million, from $8,623 million in 2009 to $10,032 million in 2010, including a net unfavorable impact of $468 million related to currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $941 million, from $8,780 million in 2009 to $9,721 million in

2010.

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Benefits and expenses of our Life Planner operations increased $775 million, from $5,222 million in 2009 to $5,997 million in 2010, including a net unfavorable impact of $301 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $474 million, from $5,338 million in 2009 to $5,812 million in 2010. Benefits and expenses of our Japanese Life Planner operation increased $340 million, from $3,855 million in 2009 to $4,195 million in 2010, primarily reflecting an increase in policyholder benefits due to changes in reserves, which was driven by the growth in business in force. Included in general and administrative expenses for the Life Planner operations is $4 million of expenses, a decrease of $8 million from the prior year, related to a recently completed initiative in Japan to enhance our information processes and technology systems in order to improve efficiency and lower costs.

Gibraltar Life s benefits and expenses increased $634 million, from $3,401 million in 2009 to $4,035 million in 2010, including an unfavorable impact of $167 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $467 million, from $3,442 million in 2009 to $3,909 million in 2010. This increase reflects an increase in policyholder benefits, including changes in reserves, of $383 million reflecting higher single premium whole life sales in 2010 and the acquisition of Yamato, offset by the effects of the special dividend arrangement discussed above. Also contributing to the increase in benefits and expenses is higher amortization of deferred policy acquisition costs related to growth of our protection products and the increase in single premium whole life sales, as well as higher general and administrative expenses including $11 million of expenses associated with the acquisition of the Star and Edison Businesses. Included in general and administrative expenses for Gibraltar Life is $18 million of expenses, unchanged from the prior year, related to the recently completed information processes and technology systems initiative discussed above.

2009 to 2008 Annual Comparison. Benefits and expenses increased $1,185 million, from $7,438 million in 2008 to $8,623 million in 2009, including a net unfavorable impact of $287 million related to currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $898 million, from $7,882 million in 2008 to $8,780 million in 2009.

Benefits and expenses of our Life Planner operations increased $325 million, from $4,897 million in 2008 to $5,222 million in 2009, including a net unfavorable impact of $44 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $281 million, from $5,057 million in 2008 to $5,338 million in 2009. Benefits and expenses of our Japanese Life Planner operation increased $251 million, from $3,604 million in 2008 to $3,855 million in 2009, primarily reflecting an increase in policyholder benefits, including changes in reserves, which was driven by the growth in business in force. Also contributing to the increase in benefits and expenses was increased amortization of deferred policy acquisition costs and higher general and administrative expenses primarily as a result of business growth. Reflected in the higher general and administrative expenses is $12 million of expenses recorded in 2009 for the Life Planner operations related to an on-going initiative in Japan to enhance our information processes and technology systems in order to improve efficiency and lower costs.

Gibraltar Life s benefits and expenses increased $860 million, from $2,541 million in 2008 to $3,401 million in 2009, including an unfavorable impact of $243 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $617 million, from $2,825 million in 2008 to $3,442 million in 2009. This increase reflects an increase in policyholder benefits, including changes in reserves, of $453 million reflecting the effects of the special dividend arrangement discussed above, higher single premium whole life sales in 2009, and the acquisition of Yamato. Also contributing to this increase is higher amortization of deferred policy acquisition costs related to the continued growth of our fixed annuity products and the increase in single premium whole life sales, as well as higher general and administrative expenses. Reflected in the higher general and administrative expenses is $18 million of expenses recorded in 2009 related to the on-going initiative in Japan discussed above.

Sales Results

In managing our international insurance business, we analyze annualized new business premiums, which do not correspond to revenues under U.S. GAAP. Annualized new business premiums measure the current sales performance of the segment, while revenues primarily reflect the renewal persistency of policies written in prior years and net investment income, in addition to current sales. Annualized new business premiums include 10% of

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first year premiums or deposits from single pay products. Annualized new business premiums on an actual and constant exchange rate basis are as follows for the periods indicated.

	Year ended December 31,		
	2010	2009	2008
		(in millions)	
Annualized new business premiums:			
On an actual exchange rate basis:			
Life Planner operations	$ 964	$ 833	$ 775
Gibraltar Life	874	568	454
Total	$ 1,838	$ 1,401	$ 1,229
On a constant exchange rate basis:			
Life Planner operations	$ 933	$ 847	$ 801
Gibraltar Life	854	583	487
Total	$ 1,787	$ 1,430	$ 1,288

2010 to 2009 Annual Comparison. On a constant exchange rate basis, annualized new business premiums increased $357 million, from $1,430 million in 2009 to $1,787 million in 2010.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased $86 million, primarily due to higher sales of retirement income and cancer whole life products in Japan.

The number of Life Planners decreased by 44, or 1%, from 6,609 as of December 31, 2009 to 6,565 as of December 31, 2010, driven by decreases of 76 in Taiwan, 53 in Poland, and 31 in Argentina, partially offset by increases of 43 in Italy, 36 in Brazil, and 28 in Japan. Over the past twelve months, we transferred 92 Japanese Life Planners to Gibraltar, primarily in support of our efforts to expand our bank channel distribution and to service orphaned policyholders. Factoring in these transfers, the number of Japanese Life Planners would have increased by 4%, from December 31, 2009 to December 31, 2010. Prior to December 31, 2009, an additional 304 Japanese Life Planners were transferred to Gibraltar.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operation increased $271 million, primarily due to higher sales of protection products in our bank distribution channels and sales related to a recently introduced cancer whole life product, a portion of which were sold through other complementary distribution channels.

The number of Life Advisors decreased by 117, from 6,398 as of December 31, 2009 to 6,281 as of December 31, 2010, as new hires and 22 Life Planners transferred to Gibraltar as Life Advisors over the last twelve months were offset by resignations and terminations due in part to failure to meet minimum sales production standards. The remaining Life Planners transferred to Gibraltar, as discussed above, are not considered Life Advisors.

2009 to 2008 Annual Comparison. On a constant exchange rate basis, annualized new business premiums increased $142 million, from $1,288 million in 2008 to $1,430 million in 2009.

Annualized new business premiums, on a constant exchange rate basis, from our Life Planner operations increased $46 million, primarily due to higher sales in Korea and Taiwan mostly reflective of the improving economic environment. The increased sales in Korea also reflect higher sales in the fourth quarter in advance of price increases effective January 1, 2010.

The number of Life Planners increased by 244, or 4%, from 6,365 as of December 31, 2008 to 6,609 as of December 31, 2009, driven by increases of 74 in Brazil, 63 in Taiwan, 59 in Poland, and 31 in Korea. During the same period, the number of Life Planners in Japan increased by 23, reflective of the transfer of 152 Life Planners

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to Gibraltar over the last twelve months, primarily in support of our efforts to expand our bank channel distribution and to service orphaned policyholders. Factoring in these transfers, the number of Japanese Life Planners would have increased 5%, from December 31, 2008 to December 31, 2009.

Annualized new business premiums, on a constant exchange rate basis, from our Gibraltar Life operation increased $96 million, primarily due to higher sales of protection products in our bank distribution channels.

The number of Life Advisors increased by 68, from 6,330 as of December 31, 2008 to 6,398 as of December 31, 2009, as new hires and 54 Life Planners transferred to Gibraltar as Life Advisors over the last twelve months were offset by resignations and terminations due in part to failure to meet minimum sales production standards. The remaining Life Planners transferred to Gibraltar, as discussed above, are not considered Life Advisors.

Investment Margins and Other Profitability Factors

Many of our insurance products sold in international markets provide for the buildup of cash values for the policyholder at mandated guaranteed interest rates. Authorities in some jurisdictions regulate interest rates guaranteed in our insurance contracts. The regulated guaranteed interest rates do not necessarily match the actual returns on the underlying investments. The spread between the actual investment returns and these guaranteed rates of return to the policyholder is an element of the profit or loss that we will experience on these products. With regulatory approval, guaranteed rates may be changed on new business. While these actions enhance our ability to set rates commensurate with available investment returns, the major sources of profitability on our products sold in Japan, other than those sold by Gibraltar Life, are margins on mortality, morbidity and expense charges rather than investment spreads.

We base premiums and cash values in most countries in which we operate on mandated mortality and morbidity tables. Our mortality and morbidity experience in the International Insurance segment on an overall basis in the years ended December 31, 2010, 2009 and 2008 was well within our pricing assumptions and below the guaranteed levels reflected in the premiums we charge.

International Investments

Operating Results

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

	Year ended December 31,		
	2010	2009	2008
		(in millions)	
Operating results:			
Revenues	$ 349	$ 301	$ 93
Expenses	303	274	453

Adjusted operating income	46	27	(360)
Realized investment gains (losses), net, and related adjustments(1)	(10)	(3)	2
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(2)	(41)	(41)	290
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (5)	$ (17)	$ (68)

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

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

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of operating joint ventures as they are reflected on a U.S. GAAP basis as a separate line in our Consolidated Statements of Operations. Earnings attributable to noncontrolling interests represents the portion of earnings from consolidated entities that relates to the equity interests of minority investors.

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

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

On May 25, 2009, we entered into an agreement with Mexican financial services group Grupo Actinver SA to sell our mutual fund and banking operations in Mexico. As a result, these operations are reflected as discontinued operations for all periods presented. This transaction closed on October 6, 2009. We recorded a pre-tax gain on the sale of $14 million, which is also reflected in discontinued operations. This transaction did not include our insurance business, our pension fund business or our real estate investments that are located in Mexico.

In February 2010, we signed a definitive agreement to sell Prudential Investment & Securities Co., Ltd. and Prudential Asset Management Co., Ltd, which together comprised our Korean asset management operations. As a result, we reflected results of our Korean asset management operations as discontinued operations for all periods presented. This transaction closed on June 1, 2010. We recorded an after-tax loss on the sale of $5 million in 2010, which is also reflected in discontinued operations.

Adjusted Operating Income

2010 to 2009 Annual Comparison. Adjusted operating income increased $19 million, from $27 million in 2009 to $46 million in 2010. The increase in adjusted operating income primarily reflects improved results from the segment s global commodities operations due to more favorable sales and trading results, partially offset by a write-down of software technology in 2010. Also contributing to the increase in adjusted operating income was higher asset-based fees in 2010 from the segment s asset management businesses.

2009 to 2008 Annual Comparison. Adjusted operating income increased $387 million, from a loss of $360 million in 2008 to income of $27 million in 2009, primarily reflecting impairment charges of $422 million in 2008 related to goodwill and operating joint ventures in Italy, Brazil and Mexico, all associated with the segment s asset management businesses, resulting from the significant deterioration in financial market conditions during the fourth quarter of 2008. Excluding these impairments, adjusted operating income decreased $39 million from the prior year. The decrease reflects lower results from the segment s global commodities operations due to less favorable sales and trading results and a lower benefit from market value changes on securities relating to exchange memberships in 2009. This decrease was partially offset by a $19 million credit loss related to a brokerage client that was recorded in 2008 and higher results from the segment s asset management businesses.

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Corporate and Other

Corporate and Other includes corporate operations, after allocations to our business segments, and real estate and relocation services.

	Year ended December 31,		
	2010	2009	2008
		(in millions)	
Operating results:			
Corporate Operations:			
Net investment income, net of interest expense, excluding capital debt interest expense	$ (59)	$ (54)	$ 218
Capital debt interest expense	(554)	(495)	(331)
Pension income and employee benefits	204	211	273
Other corporate activities	(482)	(397)	(366)
Total Corporate Operations(1)	(891)	(735)	(206)
Real Estate and Relocation Services	20	(60)	(189)
Adjusted operating income	(871)	(795)	(395)
Realized investment gains (losses), net, and related adjustments(2)	98	108	(466)
Related charges(3)	2	6	(4)
Divested businesses(4)	(55)	2,131	(506)
Equity in earnings of operating joint ventures and earnings attributable to noncontrolling interests(5)	(18)	(2,311)	336
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (844)	$ (861)	$ (1,035)

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

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

2010 to 2009 Annual Comparison. The loss from Corporate and Other operations, on an adjusted operating income basis, increased $76 million, from $795 million in 2009 to $871 million in 2010. The loss from corporate operations increased $156 million, from $735 million in 2009 to $891 million in 2010. Capital debt interest expense increased $59 million due to a greater level of capital debt, which includes the issuance in September 2009 of $500 million of exchangeable surplus notes, and reflects the use of a portion of the proceeds from prior sales of retail medium-term notes for general corporate purposes beginning in the second quarter of 2009, as well as the deployment of additional corporate borrowings for capital purposes. Investment income, net of interest expense, excluding capital debt interest expense, decreased $5 million. Higher levels of short-term liquidity have been maintained throughout 2009 and 2010 to provide additional flexibility to address our cash needs in view of changing financial market conditions. The need to hold higher levels of short-term liquidity, coupled with a portion of the proceeds from the sale at the end of 2009 of our minority joint venture interest in Wachovia Securities, will result in higher than historical levels of cash and short-term investments in Corporate and Other until such time as capital is deployed to our business segments or invested longer-term. On February 1, 2011, we used a portion of this cash and short-term investments to partially fund the purchase price for the acquisition of the Star and Edison Businesses. See Liquidity and Capital Resources for additional details.

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Net investment income, net of interest expense, excluding capital debt interest expense was also impacted by our repurchase of substantially all of our convertible senior notes during 2009. Also contributing to the greater loss from corporate operations in 2010 compared to the prior year are greater net charges from other corporate activities, primarily reflecting less favorable results from corporate hedging activities, increased corporate advertising expenses and other retained corporate expenses.

Results from corporate operations pension income and employee benefits decreased $7 million. The decrease reflects increases in employee benefits costs partially offset by an increase in income from our qualified pension plan. Income from our qualified pension plan increased $13 million, from $308 million in 2009 to $321 million in 2010.

For purposes of calculating pension income from our own qualified pension plan for the year ended December 31, 2011, we will decrease the discount rate to 5.60% from 5.75% in 2010. The expected rate of return on plan assets will decrease to 7.00% in 2011 from 7.50% in 2010 and the assumed rate of increase in compensation will remain unchanged at 4.5%. We determined our expected rate of return on plan assets based upon a building block approach that considers inflation, real return, term premium, credit spreads, equity risk premium and capital appreciation as well as expenses, expected asset manager performance and the effect of rebalancing for the equity, debt and real estate asset mix applied on a weighted average basis to our pension asset portfolio. Giving effect to the foregoing assumptions and other factors, we expect on a consolidated basis income from our own qualified pension plan will continue to contribute to adjusted operating income in 2011, but at a level of about $25 million to $35 million lower than that of the year 2010. Other postretirement benefit expenses will increase in a range of $2 million to $5 million. The increase is driven primarily by the change in the expected rate of return on plan assets from 7.50% to 7.00%, demographic updates, and a change in the discount rate from 5.50% to 5.35%. These changes are partially offset by an increase in actual returns on plan assets. In 2011, pension and other postretirement benefit service costs related to active employees will continue to be allocated to our business segments.

Adjusted operating income of our real estate and relocation services business increased $80 million, from a loss of $60 million in 2009 to income of $20 million in 2010. The increase in adjusted operating income reflects higher relocation transaction volume and higher real estate average home sale prices, as well as lower operating expenses in 2010 compared to the prior year. In addition, results include our share of the earnings from equity method investments, which included goodwill impairments recorded in 2009 within these entities.

2009 to 2008 Annual Comparison. The loss from corporate and other operations, on an adjusted operating income basis, increased $400 million, from $395 million in 2008 to $795 million in 2009. The loss from corporate operations increased $529 million, from $206 million in 2008 to $735 million in 2009. Investment income, net of interest expense, excluding capital debt interest expense, decreased $272 million, primarily reflecting lower earnings from the investment of proceeds from our debt issuances, and other borrowings, which are invested in cash and short-term investments, as well as lower yields on cash equivalents. Higher levels of short-term liquidity have been maintained in 2009 to provide additional flexibility to address changing cash needs in view of volatile financial market conditions. Investment income, net of interest expense, excluding capital debt interest expense was also impacted by our repurchase, since December 2008, of substantially all of our convertible senior notes, the proceeds of which had been invested primarily in short-term investments, as well as lower earnings on other invested assets. Capital debt interest expense increased $164 million due to a greater level of capital debt, which includes the issuance in June 2008 of $1.5 billion of junior subordinated notes and reflects the use of a portion of the proceeds from prior sales of retail medium-term notes for general corporate purposes in 2009. Previously, these proceeds were used to support an asset portfolio within the Retirement segment for which the Company has employed a substitute funding source, as discussed in Liquidity and Capital Resources Financing Activities. Also contributing to the greater loss from corporate operations in 2009 are increased losses from other corporate activities, which reflects an increase in our deferred compensation liabilities and other retained corporate expenses. The increased losses were partially offset by a decline in the level of costs related to our retained obligations to certain policyholders with whom we had previously agreed to provide insurance for reduced or no premium in accordance with contractual settlements related to prior individual life sales practice remediation. Both our deferred compensation liabilities and our retained obligations to certain policyholders are impacted by financial market conditions.

Corporate operations pension income and employee benefits decreased $62 million. The decrease reflects increased post-retirement benefit costs due to the amortization of prior year losses and lower investment returns due to the lower asset base reflective of market conditions in late 2008 and early 2009, partially offset by an increase in income from our qualified pension plan. Income from our qualified pension plan increased $18 million, from $290 million in 2008 to $308 million in 2009.

The loss, on an adjusted operating income basis, of our real estate and relocation services business decreased $129 million, from $189 million in 2008 to $60 million in 2009. Results in 2008 include a goodwill impairment of $117 million recorded during the fourth quarter of 2008. This impairment, which was all of the goodwill associated with this business, was reflective of the further deterioration of the U.S. housing market that occurred during the fourth quarter of 2008 and our view of the timing of the future recovery of this market, which resulted in a decrease in the expected future earnings of this business. Excluding this impairment, the loss decreased $12 million, reflecting lower loan loss provisions and lower operating expenses, partially offset by lower royalty fees and lower relocation revenue from real estate referral fees primarily due to unfavorable residential real estate market conditions. Results for 2009 also include our share of the earnings from equity method investments, which include goodwill impairments recorded in 2009 within these entities.

Capital hedge program

Corporate and Other operations includes the results of our capital hedge program which broadly addresses the equity market exposure of the statutory capital of the Company as a whole, under stress scenarios, as described under Liquidity and Capital Resources Liquidity and Capital Resources of Subsidiaries Domestic Insurance Subsidiaries. For the year ended December 31, 2010, the result of this hedge was a loss of $15 million, of which $7 million reflects market value changes of derivatives included in Realized investment gains (losses), net and related adjustments.

In addition, we manage certain risks associated with our variable annuity products through our living benefit hedging program, which is described under U.S. Retirement Solutions and Investment Management Division Individual Annuities. Consistent with sound risk management practices, we evaluate hedge levels versus our target given overall capital considerations of the Company and prevailing capital market conditions and may decide to temporarily hedge to an amount that differs from our hedge target definition. Because this decision is based on the overall capital considerations of the Company as a whole, the impact on results from temporarily hedging to an amount that differs from our target hedge definition is reported through Corporate and Other operations. For the year ended December 31, 2010, Realized investment gains (losses), net and related adjustments includes a gain of $306 million representing the impact of hedging to an amount that differed from our target hedge definition.

We assess the composition of our hedging program on an ongoing basis, and we may change it from time to time based on our evaluation of the Company s risk position or other factors.

Results of Operations of Closed Block Business

We established the Closed Block Business effective as of the date of demutualization. The Closed Block Business includes our in force traditional domestic participating life insurance and annuity products and assets that are used for the payment of benefits and policyholder dividends on these policies, as well as other assets and equity and related liabilities that support these policies. We no longer offer these traditional domestic participating policies. See Overview Closed Block Business for additional details.

Each year, the Board of Directors of Prudential Insurance determines the dividends payable on participating policies for the following year based on the experience of the Closed Block, including investment income, net realized and unrealized investment gains, mortality experience and other factors. Although Closed Block experience for dividend action decisions is based upon statutory results, at the time the Closed Block was established, we developed, as required by U.S. GAAP, an actuarial calculation of the timing of the maximum future earnings from the policies included in the Closed Block. If actual cumulative earnings in any given period are greater than the cumulative earnings we expected, we will record this excess as a policyholder dividend

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obligation. We will subsequently pay this excess to Closed Block policyholders as an additional dividend unless it is otherwise offset by future Closed Block performance that is less favorable than we originally expected. The policyholder dividends we charge to expense within the Closed Block Business will include any change in our policyholder dividend obligation that we recognize for the excess of actual cumulative earnings in any given period over the cumulative earnings we expected in addition to the actual policyholder dividends declared by the Board of Directors of Prudential Insurance.

As of December 31, 2010, the excess of actual cumulative earnings over the expected cumulative earnings was $126 million, which was recorded as a policyholder dividend obligation. Actual cumulative earnings, as required by U.S. GAAP, reflect the recognition of realized investment gains and losses in the current period, as well as changes in assets and related liabilities that support the Closed Block policies. Additionally, the accumulation of net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of $2,117 million at December 31, 2010, to be paid to Closed Block policyholders unless offset by future experience, with an offsetting amount reported in Accumulated other comprehensive income (loss).

Operating Results

Management does not consider adjusted operating income to assess the operating performance of the Closed Block Business. Consequently, results of the Closed Block Business for all periods are presented only in accordance with U.S. GAAP. The following table sets forth the Closed Block Business U.S. GAAP results for the periods indicated.

	Year ended December 31,		
	2010	**2009**	**2008**
		(in millions)	
U.S. GAAP results:			
Revenues	$ 7,086	$ 5,245	$ 7,059
Benefits and expenses	6,361	5,725	7,043
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 725	$ (480)	$ 16

Income (Loss) from Continuing Operations Before Income Taxes and Equity in Earnings of Operating Joint Ventures

2010 to 2009 Annual Comparison. Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures increased $1,205 million, from a loss of $480 million in 2009 to income of $725 million in 2010. Results for 2010 include an increase of $2,079 million in net realized investment gains (losses), from losses of $1,285 million in 2009 to gains of $794 million in 2010, primarily due to lower impairments and credit losses, as well as a net increase in the market value of derivatives used in duration management programs. For a discussion of Closed Block Business realized investment gains (losses), net, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses. Net investment income, net of interest expense, increased $67 million, primarily due to an increase in income on joint ventures and limited partnership investments accounted for under the equity method, partially offset by lower portfolio yields. In addition, dividends paid and accrued to policyholders decreased primarily due to a decrease in the 2010 dividend scale. The impact of these items contributed to the actual cumulative earnings which, when compared to the expected cumulative earnings, resulted in an increase in the cumulative earnings policyholder dividend obligation expense of $977 million, from 2009 compared to 2010. As noted above, as of December 31, 2010, the excess of actual cumulative earnings over the expected cumulative earnings was $126 million. If actual cumulative earnings fall below expected cumulative earnings in future periods, earnings volatility in the Closed Block Business, which is primarily due to changes in investment results, may not be offset by changes in the cumulative earnings policyholder dividend obligation.

2009 to 2008 Annual Comparison. Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures decreased $496 million, from income of $16 million in 2008 to a loss of $480 million in 2009. Results for 2009 include a decrease of $1,300 million in net realized investment gains (losses), from gains of $15 million in 2008 to losses of $1,285 million in 2009, primarily due to a net decrease in the market value of derivatives used in duration management programs. For a discussion of Closed Block Business realized investment gains (losses), net, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses. Net investment income, net of interest expense, decreased $199 million, primarily related to lower portfolio yields, including lower interest rates on floating rate investments due to rate resets and reinvestments at lower yields, as well as a decrease in income on joint ventures and limited partnership investments accounted for under the equity method. These decreases to income were partially offset by a decrease of $348 million in dividends paid and accrued to policyholders, primarily due to a decrease in the dividend scales for 2009 and 2010. In addition, amortization of deferred policy acquisition costs decreased $46 million reflecting the impact of investment losses on actual gross margins for the period compared to the previously estimated expected gross margins for the period. During 2009, the cumulative earnings policyholder dividend obligation was reduced from $851 million to zero, and was a partial offset to the decline in earnings as discussed above. In 2008, the change in the cumulative earnings policyholder dividend obligation of $299 million was an offset to the decline in earnings in the period. As of December 31, 2009, actual cumulative earnings were below the expected cumulative earnings by $601 million. There will be no cumulative earnings policyholder dividend obligation until this amount is recovered.

Revenues

2010 to 2009 Annual Comparison. Revenues, as shown in the table above under Operating Results, increased $1,841 million, from $5,245 million in 2009 to $7,086 million in 2010, principally driven by the $2,079 million increase in net realized investment gains (losses) and an increase of $69 million in net investment income, as discussed above. Partially offsetting these items was a decline in premiums, with a related decrease in changes in reserves, primarily due to a lower amount of dividends available for policyholders to purchase additional insurance, as a result of the 2010 dividend scale reduction, and to a lesser extent, the expected in force decline as policies terminate.

2009 to 2008 Annual Comparison. Revenues decreased $1,814 million, from $7,059 million in 2008 to $5,245 million in 2009, principally driven by the $1,300 million decrease in net realized investment gains (losses) and a decrease of $243 million in net investment income, as discussed above. In addition, premiums declined, with a related decrease in changes in reserves, primarily due to a lower amount of dividends used by policyholders to purchase additional insurance, as a result of the 2009 and 2010 dividend scale reductions, and to a lesser extent, the expected in force decline as policies terminate.

Benefits and Expenses

2010 to 2009 Annual Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $636 million, from $5,725 million in 2009 to $6,361 million in 2010. This increase included an $849 million increase in dividends to policyholders reflecting an increase in the cumulative earnings policyholder dividend obligation expense of $977 million, representing an $851 million reduction in the cumulative earnings policyholder dividend obligation in 2009, compared to a $126 million increase in the cumulative earnings policyholder dividend obligation in 2010. This increase was partially offset by a decrease in dividends paid and accrued to policyholders of $128 million, primarily due to a decrease in the 2010 dividend scale. Policyholders benefits, including changes in reserves, decreased $250 million driven by a decline in premiums, as discussed above.

2009 to 2008 Annual Comparison. Benefits and expenses decreased $1,318 million, from $7,043 million in 2008 to $5,725 million in 2009. This decline included a $900 million decrease in dividends to policyholders reflecting a decrease in the cumulative earnings policyholder dividend obligation expense of $552 million, as well as a decrease in dividends paid and accrued to policyholders of $348 million, primarily due to a decrease in the dividend scales. Policyholders benefits, including changes in reserves, decreased $325 million driven by a decline in premiums, as discussed above. In addition, amortization of deferred policy acquisition costs decreased reflecting the impact of investment losses on actual gross margins for the period compared to the previously estimated expected gross margins for the period.

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Income Taxes

Shown below is our income tax provision for the years ended December 31, 2010, 2009 and 2008, separately reflecting the impact of certain significant items. Also presented below is the income tax provision that would have resulted from application of the statutory 35% federal income tax rate in each of these periods.

	Year ended December 31,		
	2010	2009	2008
		(in millions)	
Tax provision	$ 1,310	$ (54)	$ (517)
Impact of:			
Low income housing and other tax credits	58	68	82
Non-taxable investment income	214	177	52
Foreign taxes at other than U.S. rate	51	15	16
State and local taxes	(4)	(2)	8
Change in tax rate	(69)	0	0
Change in valuation allowance	(29)	0	0
Non-deductible expenses	(10)	3	(1)
Non-deductible goodwill impairment	0	0	(83)
Expiration of statute of limitations and related interest	0	272	0
Other	27	64	14
Tax provision excluding these items	$ 1,548	$ 543	$ (429)
Tax provision at statutory rate	$ 1,548	$ 543	$ (429)

Our income tax provision amounted to an income tax expense of $1,310 million in 2010 compared to a benefit of $54 million in 2009. The increase in income tax expense primarily reflects the increase in pre-tax income from continuing operations before income taxes and equity in earnings of operating joint ventures for the year ended December 31, 2010. In addition, the 2009 income tax benefit included a reduction to the liability for unrecognized tax benefits and related interest of $272 million primarily related to tax years prior to 2002 as a result of the expiration of the statute of limitations for the 2002 and 2003 tax years, additional interest on a tax refund received related to the 1997 through 2001 tax years, and changes in estimates. In addition, 2010 income tax expense includes a charge for the reduction of deferred tax assets in the amount of $94 million related to the Medicare Part D subsidy and a charge of $29 million to reflect an increase in valuation allowance related to deferred tax assets established in 2010 and prior years. The change in valuation allowance in the current year reflects the Company s reassessment of the likelihood of the realization of state and local deferred tax assets for certain non-insurance subsidiaries.

We employ various tax strategies, including strategies to minimize the amount of taxes resulting from realized capital gains.

For additional information regarding income taxes, see Note 19 to the Consolidated Financial Statements.

Discontinued Operations

Included within net income are the results of businesses which are reflected as discontinued operations under U.S. GAAP. Income (loss) from discontinued operations, net of taxes, was $10 million, $(39) million and $75 million for the years ended December 31, 2010, 2009 and 2008, respectively.

For additional information regarding discontinued operations see Note 3 to the Consolidated Financial Statements.

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Divested Businesses

Our income from continuing operations includes results from several businesses that have been or will be sold or exited that do not qualify for discontinued operations accounting treatment under U.S. GAAP. The results of these divested businesses are reflected in our Corporate and Other operations, but excluded from adjusted operating income. A summary of the results of these divested businesses that have been excluded from adjusted operating income is as follows for the periods indicated:

	Year ended December 31,		
	2010	2009	2008
		(in millions)	
Financial Advisory	$ (19)	$ 2,167	$ (351)
Property and Casualty Insurance	(33)	(21)	8
Commercial mortgage securitization operations	0	(12)	(158)
Other(1)	(3)	(3)	(5)
Total divested businesses excluded from adjusted operating income	$ (55)	$ 2,131	$ (506)

(1) Primarily includes Prudential Securities Capital Markets and exchange shares previously held by Prudential Equity Group.

Financial Advisory

In 2008, we classified our Financial Advisory business as a divested business, reflecting our intention to exit this business. This business consists of our former investment in the Wachovia Securities joint venture, in addition to expenses relating to obligations and costs we retained in connection with the businesses we contributed to the joint venture, primarily for litigation and regulatory matters. On December 31, 2009, we completed the sale of our minority joint venture interest in Wachovia Securities, which includes Wells Fargo Advisors, to Wells Fargo. At the closing, we received $4.5 billion in cash as the purchase price of our joint venture interest and de-recognized the carrying value related to our investment in the joint venture. Results for 2009 include the associated pre-tax gain on the sale of $2.247 billion, which is reflected in Equity in earnings of operating joint ventures, net of taxes in our Consolidated Statements of Operations. Results for 2009 also include certain one-time costs related to the sale of the joint venture interest of $104 million, for pre-tax compensation costs and costs related to increased contributions to our charitable foundation. For more information on our former investment in the Wachovia Securities joint venture, including the lookback option, see Note 7 to the Consolidated Financial Statements.

On August 15, 2008, Wachovia announced that it had reached an agreement in principle for a global settlement of investigations concerning the underwriting, sale and subsequent auction of certain auction rate securities by subsidiaries of Wachovia Securities and had recorded an increase to legal reserves. Our recorded share of pre-tax earnings from the joint venture for the year ended December 31, 2008 included $355 million related to the impact of this item on our share of the equity earnings of the joint venture.

Commercial Mortgage Securitization Operations

In 2008, we classified our commercial mortgage securitization operations as a divested business, reflecting our decision to exit this business. These operations, which involved the origination and purchase of commercial mortgage loans that we in turn would aggregate and sell into commercial mortgage-backed securitization transactions, together with related hedging activities, were previously reported within the Asset Management segment. We retained and continue the remainder of our commercial mortgage origination, servicing and other commercial mortgage related activities, which remain a part of our Asset Management segment.

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Investment Gains and Losses on Trading Account Assets Supporting Insurance Liabilities and

Changes in Experience-Rated Contractholder Liabilities Due to Asset Value Changes

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

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

Results for the years ended December 31, 2010, 2009 and 2008 include the recognition of net investment gains of $501 million and $1,601 million, and net investment losses of $1,734 million, respectively, on Trading account assets supporting insurance liabilities, at fair value. These net investment gains and losses primarily represent interest-rate related mark-to-market adjustments, which include the impact of changes in credit spreads on fixed maturity securities. In addition, results for the years ended December 31, 2010, 2009 and 2008 include net investment gains of $50 million, losses of $131 million and gains of $126 million, respectively, related to changes in the fair value of derivatives that support these experience-rated products. Consistent with our treatment of Realized investment gains (losses), net, these gains and losses, which are expected to ultimately accrue to the contractholders, are excluded from adjusted operating income. In addition, results for the years ended December 31, 2010, 2009 and 2008 include increases of $631 million and $899 million, and decreases of $1,163 million, respectively, in contractholder liabilities due to asset value changes in the pool of investments that support these experience-rated contracts. These liability changes are reflected in Interest credited to policyholders account balances and are also excluded from adjusted operating income. Net investment gains net of the increase in contractholder liabilities due to these asset valuation changes resulted in net losses of $80 million in 2010, net gains of $571 million in 2009, and net losses of $445 million in 2008. This primarily reflects timing differences between the recognition of the interest-rate related mark-to-market adjustments and the recognition of the recovery of these mark-to-market adjustments in future periods through subsequent increases in asset values or reductions in crediting rates on contractholder liabilities. Decreases to these contractholder liabilities due to asset value changes are limited by certain floors and therefore do not reflect cumulative declines in recorded asset values of $9 million as of December 31, 2010 and $35 million as of December 31, 2009. We have recovered and expect to recover in future periods these declines in recorded asset values through subsequent increases in recorded asset values or reductions in crediting rates on contractholder liabilities.

In addition, as prescribed by U.S. GAAP, changes in the fair value of commercial mortgage and other loans held in our general account, other than when associated with impairments, are not recognized in income in the current period, while the impact of these changes in value are reflected as a change in the liability to fully participating contractholders in the current period. Included in the amounts above related to the change in the liability to contractholders as a result of commercial mortgage and other loans are increases of $108 million and $105 million, and decreases of $144 million for the years ended December 31, 2010, 2009 and 2008, respectively.

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Valuation of Assets and Liabilities

Fair Value of Assets and Liabilities

The authoritative guidance related to fair value established a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. See Note 20 to the Consolidated Financial Statements for a description of these levels.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis, as of December 31, 2010 and 2009, split between the Financial Services Businesses and Closed Block Business, by fair value hierarchy level. See Note 20 to the Consolidated Financial Statements for the balances of assets and liabilities measured at fair value on a recurring basis presented on a consolidated basis.

	Financial Services Businesses as of December 31, 2010				
	Level 1	Level 2	Level 3(1)	Netting(2)	Total
			(in millions)		
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 5,264	$ 0	$	$ 5,264
Obligations of U.S. states and their political subdivisions	0	1,574	0		1,574
Foreign government bonds	0	49,549	13		49,562
Corporate securities	5	69,843	694		70,542
Asset-backed securities	0	5,713	1,348		7,061
Commercial mortgage-backed securities	0	8,128	130		8,258
Residential mortgage-backed securities	0	7,525	20		7,545
Subtotal	5	147,596	2,205		149,806
Trading account assets supporting insurance liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	266	0		266
Obligations of U.S. states and their political subdivisions	0	182	0		182
Foreign government bonds	0	569	0		569
Corporate securities	0	10,036	82		10,118
Asset-backed securities	0	804	226		1,030
Commercial mortgage-backed securities	0	2,402	5		2,407
Residential mortgage-backed securities	0	1,345	18		1,363
Equity securities	935	200	4		1,139
Short-term investments and cash equivalents	606	91	0		697
Subtotal	1,541	15,895	335		17,771
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	96	0		96
Obligations of U.S. states and their political subdivisions	0	118	0		118
Foreign government bonds	1	24	0		25
Corporate securities	14	151	35		200
Asset-backed securities	0	574	50		624
Commercial mortgage-backed securities	0	84	19		103
Residential mortgage-backed securities	0	163	18		181
Equity securities	392	142	26		560
All other	33	7,325	134	(5,330)	2,162

Subtotal	440	8,677	282	(5,330)	4,069
Equity securities, available for sale	1,038	2,788	322		4,148
Commercial mortgage and other loans	0	136	212		348
Other long-term investments	37	169	768		974
Short-term investments	2,171	1,641	0		3,812
Cash equivalents	2,328	6,363	0		8,691
Other assets	1,000	1,678	(2)		2,676
Subtotal excluding separate account assets	8,560	184,943	4,122	(5,330)	192,295
Separate account assets(3)	42,356	149,628	15,792		207,776
Total assets	$ 50,916	$ 334,571	$ 19,914	$ (5,330)	$ 400,071
Future policy benefits	$ 0	$ 0	$ (204)	$	$ (204)
Long-term debt	0	0	0		0
Other liabilities	1	6,162	2	(5,138)	1,027
Total liabilities	$ 1	$ 6,162	$ (202)	$ (5,138)	$ 823

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	Closed Block Business as of December 31, 2010				
	Level 1	Level 2	Level 3(1) (in millions)	Netting(2)	Total
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 6,034	$ 0	$	$ 6,034
Obligations of U.S. states and their political subdivisions	0	657	0		657
Foreign government bonds	0	663	14		677
Corporate securities	0	27,182	493		27,675
Asset-backed securities	0	3,525	405		3,930
Commercial mortgage-backed securities	0	3,779	0		3,779
Residential mortgage-backed securities	0	2,422	3		2,425
Subtotal	0	44,262	915		45,177
Trading account assets supporting insurance liabilities	0	0	0		0
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	0	0		0
Obligations of U.S. states and their political subdivisions	0	0	0		0
Foreign government bonds	0	0	0		0
Corporate securities	0	118	0		118
Asset-backed securities	0	33	4		37
Commercial mortgage-backed securities	0	0	0		0
Residential mortgage-backed securities	0	0	0		0
Equity securities	1	0	0		1
All other	0	0	0		0
Subtotal	1	151	4		156
Equity securities, available for sale	3,420	140	33		3,593
Commercial mortgage and other loans	0	0	0		0
Other long-term investments	0	(40)	0		(40)
Short-term investments	1,136	28	0		1,164
Cash equivalents	137	308	0		445
Other assets	0	107	11		118
Subtotal excluding separate account assets	4,694	44,956	963		50,613
Separate account assets(3)	0	0	0		0
Total assets	$ 4,694	$ 44,956	$ 963	$	$ 50,613
Future policy benefits	$ 0	$ 0	$ 0	$	$ 0
Long-term debt	0	0	0		0
Other liabilities	0	0	1		1
Total liabilities	$ 0	$ 0	$ 1	$	$ 1

(1) The amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 5% and 2% for Financial Services Businesses and Closed Block Business, respectively. Excluding separate account assets for which the risk is borne by the policyholder, the amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 2% for our Financial Services Businesses. The amount of Level 3 liabilities was immaterial to our balance sheet.

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

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

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	Financial Services Businesses as of December 31, 2009(3)				
	Level 1	Level 2	Level 3(1) (in millions)	Netting(2)	Total
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 4,623	$ 0	$	$ 4,623
Obligations of U.S. states and their political subdivisions	0	789	0		789
Foreign government bonds	0	41,326	31		41,357
Corporate securities	5	62,459	534		62,998
Asset-backed securities	0	2,895	3,753		6,648
Commercial mortgage-backed securities	0	7,051	305		7,356
Residential mortgage-backed securities	0	8,823	100		8,923
Subtotal	5	127,966	4,723		132,694
Trading account assets supporting insurance liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	128	0		128
Obligations of U.S. states and their political subdivisions	0	31	0		31
Foreign government bonds	0	517	0		517
Corporate securities	0	9,419	83		9,502
Asset-backed securities	0	576	281		857
Commercial mortgage-backed securities	0	1,888	5		1,893
Residential mortgage-backed securities	0	1,412	20		1,432
Equity securities	700	232	3		935
Short-term investments and cash equivalents	338	387	0		725
Subtotal	1,038	14,590	392		16,020
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	95	0		95
Obligations of U.S. states and their political subdivisions	0	0	0		0
Foreign government bonds	1	23	0		24
Corporate securities	16	187	34		237
Asset-backed securities	0	867	84		951
Commercial mortgage-backed securities	0	109	27		136
Residential mortgage-backed securities	0	146	12		158
Equity securities	306	136	24		466
All other	37	4,707	297	(4,242)	799
Subtotal	360	6,270	478	(4,242)	2,866
Equity securities, available for sale	854	2,589	367		3,810
Commercial mortgage and other loans	0	114	338		452
Other long-term investments	36	5	498		539
Short-term investments	2,544	2,510	0		5,054
Cash equivalents	5,502	3,939	0		9,441
Other assets	2,391	62	16		2,469
Subtotal excluding separate account assets	12,730	158,045	6,812	(4,242)	173,345
Separate account assets(4)	33,641	127,381	13,052		174,074
Total assets	$ 46,371	$ 285,426	$ 19,864	$ (4,242)	$ 347,419
Future policy benefits	$ 0	$ 0	$ 55	$	$ 55
Long-term debt	0	0	429		429
Other liabilities	0	4,764	6	(3,841)	929
Total liabilities	$ 0	$ 4,764	$ 490	$ (3,841)	$ 1,413

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	Closed Block Business as of December 31, 2009				
	Level 1	Level 2	Level 3(1) (in millions)	Netting(2)	Total
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$ 0	$ 3,645	$ 0	$	$ 3,645
Obligations of U.S. states and their political subdivisions	0	586	0		586
Foreign government bonds	0	681	16		697
Corporate securities	0	27,335	368		27,703
Asset-backed securities	0	980	2,610		3,590
Commercial mortgage-backed securities	0	3,662	0		3,662
Residential mortgage-backed securities	0	2,644	4		2,648
Subtotal	0	39,533	2,998		42,531
Trading account assets supporting insurance liabilities	0	0	0		0
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	0	0	0		0
Obligations of U.S. states and their political subdivisions	0	0	0		0
Foreign government bonds	0	0	0		0
Corporate securities	0	122	0		122
Asset-backed securities	0	27	13		40
Commercial mortgage-backed securities	0	0	0		0
Residential mortgage-backed securities	0	0	0		0
Equity securities	5	0	0		5
All other	0	0	0		0
Subtotal	5	149	13		167
Equity securities, available for sale	2,901	158	26		3,085
Commercial mortgage and other loans	0	0	0		0
Other long-term investments	0	61	0		61
Short-term investments	1,017	321	0		1,338
Cash equivalents	169	529	0		698
Other assets	0	114	11		125
Subtotal excluding separate account assets	4,092	40,865	3,048		48,005
Separate account assets(4)	0	0	0		0
Total assets	$ 4,092	$ 40,865	$ 3,048	$	$ 48,005
Future policy benefits	$ 0	$ 0	$ 0	$	$ 0
Long-term debt	0	0	0		0
Other liabilities	0	0	0		0
Total liabilities	$ 0	$ 0	$ 0	$	$ 0

(1) The amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 6% and 6% for the Financial Services Businesses and Closed Block Business, respectively. Excluding separate account assets for which the risk is borne by the policyholder, the amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 4% for the Financial Services Businesses. The amount of Level 3 liabilities was immaterial to our balance sheet.
(2) Netting amounts represent cash collateral and the impact of offsetting asset and liability positions held with the same counterparty.
(3) Includes reclassifications to conform to current period presentation.
(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 us with respect to certain accounts. Separate account assets classified as Level 3 consist primarily of real estate and real estate investment funds. Separate account liabilities are not included in the above table as they are reported at contract value and not fair value in our Consolidated Statement of Financial Position.

For additional information regarding the balances of assets and liabilities measured at fair value by hierarchy level see Note 20 to the Consolidated Financial Statements.

The determination of fair value, which for certain assets and liabilities is dependent on the application of estimates and assumptions, can have a significant impact on our results of operations. As discussed in more detail below, the determination of fair value for certain assets and liabilities may require the application of a greater degree of judgment depending on market conditions, as the ability to value assets and liabilities can be significantly impacted by a decrease in market activity or a lack of transactions executed in an orderly manner. For a description of the key estimates and assumptions used in our determination of fair value, see Note 20 to the Consolidated Financial Statements. The following sections provide additional information regarding certain assets and liabilities of our Financial Services Businesses and our Closed Block Business which are valued using Level 3 inputs and could have a significant impact on our results of operations. Information regarding Separate Account Assets is excluded as the risk of assets for these categories is primarily borne by our customers and policyholders.

Fixed Maturity and Equity Securities

Public fixed maturity securities included in Level 3 in our fair value hierarchy are generally priced based on internally-developed valuations or non-binding broker quotes. Despite the dislocated markets and low levels of liquidity in recent years, except for our asset-backed securities collateralized by sub-prime mortgages as discussed below, the pricing we received from independent pricing services was not materially different from our internal estimates of current market value for the remainder of our public fixed maturity portfolio. As a result, for public fixed maturity securities we generally continued to use the price provided by the independent pricing services under our normal pricing protocol. Securities with prices based on validated quotes from pricing services are generally reflected within Level 2. For certain private fixed maturity and equity securities, the discounted cash flow or other valuation model uses significant unobservable inputs, and accordingly, such securities are included in Level 3 in our fair value hierarchy.

As of December 31, 2009, our Level 3 fixed maturity securities included asset-backed securities collateralized by sub-prime mortgages with a fair value of $5,667 million. We reported fair values for these asset-backed securities collateralized by sub-prime mortgages as of December 31, 2009 based on our determination that the market for these securities for the period was an inactive market. We considered both third-party pricing information and an internally-developed price based on a discounted cash flow model in determining the fair value of certain of these securities. Based on the unobservable inputs used in the discounted cash flow model and the limited observable market activity, asset-backed securities collateralized by sub-prime mortgages were included in Level 3 as of December 31, 2009.

Beginning in the second quarter of 2010, we observed an increasingly active market, as evidence of orderly transactions in asset-backed securities collateralized by sub-prime mortgages became more apparent. Additionally, the valuation based on the pricing we received from independent pricing services was not materially different from our internal estimates of current market value for these securities. As a result, where third party pricing information based on the observable inputs was used to fair value the security, and based on the assessment that the market has been increasingly active, we have reported the fair values for these asset-backed securities collateralized by sub-prime mortgages in Level 2 since June 30, 2010. As of December 31, 2010, the fair values of these securities included in Level 2 were $4,799 million. Transfers out of Level 3 into Level 2 totaled $5,196 million for the year ended December 31, 2010 relating to this change.

Excluding these asset-backed securities collateralized by sub-prime mortgages, Level 3 fixed maturity securities included approximately $2.1 billion as of December 31, 2010 and $1.1 billion as of December 31, 2009 of public fixed maturities, with values primarily based on non-binding broker-quotes, and approximately $1.4 billion as of December 31, 2010 and $1.5 billion as of December 31, 2009 of private fixed maturities, with values primarily based on internally-developed models. Significant unobservable inputs used included: issue specific credit adjustments, material non-public financial information, management judgment, estimation of future earnings and cash flows, default rate assumptions, liquidity assumptions and non-binding quotes from market makers. These inputs are usually considered unobservable, as not all market participants will have access to this data.

For additional information regarding our holdings of asset-backed securities collateralized by sub-prime mortgages, see, Realized Investment Gains and Losses and General Account Investments General Account Investments Fixed Maturity Securities Asset-Backed Securities. While the fair value of these investments is in a significant unrealized loss position due to increased credit spreads and illiquidity in the financial markets, we believe the ultimate value in aggregate that will be realized from these investments is greater than that reflected by their current fair value.

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The impact our determination of fair value for fixed maturity and equity securities has on our results of operations is dependent on our classification of the security as either trading, available for sale, or held to maturity. For our investments classified as trading, the impact of changes in fair value is recorded within Asset management fees and other income. For our investments classified as available for sale, the impact of changes in fair value is recorded as an unrealized gain or loss in Accumulated other comprehensive income (loss), a separate component of equity. Our investments classified as held to maturity are carried at amortized cost.

Other Long-Term Investments

The fair value of real estate held in consolidated investment funds is determined through an independent appraisal process. The appraisals generally utilize a discounted cash flow model, following an income approach that incorporates various assumptions including rental revenue, operating expenses and discount rates. The appraisals also include replacement cost estimates and recent sales data as alternate methods of fair value. These appraisals and the related assumptions are updated at least annually, and incorporate historical property experience and any observable market data, including any market transactions. Since many of the assumptions utilized are unobservable and are considered to be significant inputs to the valuation, the real estate investments within other long-term investments have been reflected within Level 3 in our fair value hierarchy. Consolidated real estate investment funds classified as Level 3 totaled approximately $0.4 billion as of both December 31, 2010 and 2009. Our direct investment in these funds is not material, and the majority of the assets recorded as a result of the consolidation of these funds are offset by a noncontrolling interest reflected as a separate component of equity. The noncontrolling interest is not considered to be fair valued and therefore is not included in fair value reporting above. The fair value of fund investments, where the fair value option has been elected, is primarily determined by the fund managers. Since the valuations may be based on unobservable market inputs and cannot be validated by the Company, these investments have also been included within Level 3 in our fair value hierarchy. Investments in these funds included in Level 3 totaled approximately $0.3 billion as of December 31, 2010.

Derivative Instruments

Derivatives are recorded at fair value either as assets, within Other trading account assets, or Other long-term investments, or as liabilities, within Other liabilities, except for embedded derivatives which are recorded with the associated host contract. The fair values of derivative contracts are determined based on quoted prices in active exchanges or through the use of valuation models, and are affected by changes in market factors including non-performance risk. The majority of our derivative positions are traded in the over the counter, or OTC, derivative market and are classified within Level 2 in our fair value hierarchy since they have bid and ask prices that are actively quoted or can be readily obtained from external market data providers. Our policy is to use mid-market pricing consistent with our best estimate of fair value.

The bid-ask spreads for OTC derivatives classified within Level 3 of the fair value hierarchy are generally wider than derivatives classified within Level 2 thus requiring more judgment in estimating the mid-market price of such derivatives. Derivatives classified as Level 3 include first-to-default credit basket swaps, look-back equity options and other structured products. These derivatives are valued based upon models with some significant unobservable market inputs or inputs from less actively traded markets. OTC derivatives classified within Level 3 are validated through periodic comparison of our fair values to broker-dealer values. The fair values of OTC derivative assets and liabilities classified as Level 3 totaled approximately $126 million and $3 million, respectively, as of December 31, 2010 and $288 million and $6 million, respectively, as of December 31, 2009, without giving consideration to the impact of netting.

For additional information regarding embedded derivatives in our annuity and retirement products classified as Level 3, see Variable Annuity Optional Living Benefit Features below.

All realized and unrealized changes in fair value of dealer and non-dealer related derivatives, with the exception of the effective portion of qualifying cash flow hedges and hedges of net investments in foreign operations, are recorded in current earnings. Generally, the changes in fair value of non-dealer related derivatives, excluding those that qualify for hedge accounting, are recorded in Realized investment gains (losses), net. For additional information regarding the impact of changes in fair value of derivative instruments on our results of operations see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses below.

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Variable Annuity Optional Living Benefit Features

Our liability for future policy benefits includes general account liabilities for guarantees on variable annuity contracts, including guaranteed minimum accumulation benefits (GMAB), guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum income and withdrawal benefits (GMIWB). While these guarantees primarily relate to the optional living benefit features of our Individual Annuities segment, they are also included in certain variable annuities in our International Insurance segment and certain retirement account based group variable annuities in our Retirement segment. These benefits are accounted for as embedded derivatives and are carried at fair value with changes in fair value included in Realized investment gains (losses), net.

The fair values of the GMAB, GMWB and GMIWB liabilities are calculated as the present value of future expected benefit payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. This methodology could result in either a liability or contra-liability balance, given changing capital market conditions and various policyholder behavior assumptions. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally-developed models with option pricing techniques. Because there are significant assumptions utilized in the valuation of the embedded derivatives associated with our optional living benefit features that are primarily unobservable, the liability included in future policy benefits has been reflected within Level 3 in our fair value hierarchy.

We are also required to incorporate the market perceived risk of our own non-performance in the valuation of the embedded derivatives associated with our optional living benefit features. Since insurance liabilities are senior to debt, we believe that reflecting the financial strength ratings of our insurance subsidiaries in the valuation of the liability appropriately takes into consideration our own risk of non-performance. To reflect the market s perception of our own risk of non-performance, we incorporate an additional spread over LIBOR into the discount rate used in the valuations of the embedded derivative liabilities. The additional spread over LIBOR rates incorporated into the discount rate as of December 31, 2010 generally ranged from 50 to 150 basis points for the portion of the interest rate curve most relevant to these liabilities. This additional spread is applied at an individual contract level and only to those embedded derivatives in a liability position and not to those in a contra-liability position. As of December 31, 2010, the fair value of the embedded derivatives associated with the optional living benefit features of the Individual Annuities segment, before the adjustment for the market s perception of our own non-performance risk, was a net $533 million liability. This liability was comprised of $1,503 million of embedded derivative liabilities net of $970 million of contra-liabilities. For 2010, our adjustment for the market s perception of our own non-performance risk resulted in a $723 million decrease to the embedded derivative liability for the Individual Annuities segment, reflecting the additional spread over LIBOR we incorporated into the discount rate used in the valuations of those embedded derivatives in a liability position. For December 31, 2009, our adjustment for the market s perception of our non-performance risk resulted in a $312 million decrease to the embedded derivative liability for the Individual Annuities segment. The increase in the adjustment for the market s perception of our non-performance risk from December 31, 2009 to December 31, 2010, was driven by an increase in the value of the underlying embedded derivative liabilities primarily due to lower interest rates.

The change in fair value of the GMAB, GMWB and GMIWB resulted in a decrease in the total liability of $259 million, from a liability of $55 million as of December 31, 2009 to a contra-liability of $204 million as of December 31, 2010. The decrease primarily reflects lower expected future benefit payments, primarily resulting from an increase in policyholder account balances driven by favorable market conditions in 2010. These changes were significantly offset by decreased amortization of deferred policy acquisition and other costs, and changes in value of related hedging instruments, primarily in our Individual Annuities segment as described in more detail under Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

Realized Investment Gains and Losses and General Account Investments

Realized Investment Gains and Losses

Realized investment gains and losses are generated from numerous sources, including the sale of fixed maturity securities, equity securities, investments in joint ventures and limited partnerships and other types of investments, as well as adjustments to the cost basis of investments for other-than-temporary impairments.

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Realized investment gains and losses are also generated from prepayment premiums received on private fixed maturity securities, recoveries of principal on previously impaired securities, net changes in the allowance for losses, as well as gains and losses on sales, certain restructurings, and foreclosures on commercial mortgage and other loans, fair value changes on commercial mortgage loans carried at fair value, and fair value changes on embedded derivatives and free-standing derivatives that do not qualify for hedge accounting treatment, except those derivatives used in our capacity as a broker or dealer.

For a further discussion of our policies regarding other-than-temporary declines in investment value and the related methodology for recording fixed maturity other-than-temporary impairments, see General Account Investments Fixed Maturity Securities Other-Than-Temporary Impairments of Fixed Maturity Securities below. For a further discussion of our policies regarding other-than-temporary declines in investment value and the related methodology for recording equity impairments, see General Account Investments Equity Securities Other-Than-Temporary Impairments of Equity Securities below. For a further discussion of our policy regarding commercial mortgage and other loans, see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality below.

The level of other-than-temporary impairments generally reflects economic conditions and is generally expected to increase when economic conditions worsen and to decrease when economic conditions improve. Historically, the causes of other-than-temporary impairments have been specific to each individual issuer and have not directly resulted in impairments to other securities within the same industry or geographic region. As discussed in more detail below, certain of the other-than-temporary impairments recognized for the year ended December 31, 2010 are primarily related to asset-backed securities collateralized by sub-prime mortgages and Japanese commercial mortgage-backed securities that reflect adverse financial conditions of the respective issuers, foreign currency translation losses related to foreign denominated securities that are approaching maturity, and the intent to sell securities, primarily related to asset-backed securities collateralized by sub-prime mortgages. Other-than-temporary impairments for the years ended December 31, 2009 and 2008, were primarily related to asset-backed securities collateralized by sub-prime mortgages and reflected the overall deterioration of the U.S. housing market.

We may realize additional credit and interest rate related losses through sales of investments pursuant to our credit risk and portfolio management objectives. In light of unprecedented market conditions, and in consideration of the potential impact on capital and tax positions, beginning in the fourth quarter of 2008, we temporarily curtailed the active trading policy of certain portfolios. In the second quarter of 2009, we resumed a more restricted trading program in these portfolios. Other-than-temporary impairments, interest rate related losses and credit related losses on sales (other than those related to certain of our businesses which primarily originate investments for sale or syndication to unrelated investors) are excluded from adjusted operating income.

We require most issuers of private fixed maturity securities to pay us make-whole yield maintenance payments when they prepay the securities. Prepayments are driven by factors specific to the activities of our borrowers as well as the interest rate environment.

We use interest rate and currency swaps and other derivatives to manage interest and currency exchange rate exposures arising from mismatches between assets and liabilities, including duration mismatches. We use derivative contracts to mitigate the risk that unfavorable changes in currency exchange rates will reduce U.S. dollar equivalent earnings generated by certain of our non-U.S. businesses. We also use equity-based and interest rate derivatives to hedge the risks embedded in some of our annuity products. Derivative contracts also include forward purchases and sales of to-be-announced mortgage-backed securities primarily related to our dollar roll program. Many of these derivative contracts do not qualify for hedge accounting, and consequently, we recognize the changes in fair value of such contracts from period to period in current earnings, although we do not necessarily account for the related assets or liabilities the same way. Accordingly, realized investment gains and losses from our derivative activities can contribute significantly to fluctuations in net income.

Adjusted operating income generally excludes Realized investment gains (losses), net, subject to certain exceptions (realized investment gains or losses within certain of our businesses for which such gains or losses are a principal source of earnings and those associated with terminating hedges of foreign currency earnings and current period yield adjustments) and related charges and adjustments.

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The following tables set forth "Realized investment gains (losses), net," by investment type for the Financial Services Businesses and Closed Block Business, as well as related charges and adjustments associated with the Financial Services Businesses, for the periods indicated. For additional details regarding adjusted operating income, which is our measure of performance for the segments of our Financial Services Businesses, see Note 22 to the Consolidated Financial Statements.

	Year Ended December 31,		
	2010	2009	2008
		(in millions)	
Realized investment gains (losses), net:			
Financial Services Businesses	$ 256	$ (1,612)	$ (2,472)
Closed Block Business	794	(1,285)	15
Consolidated realized investment gains (losses), net	$ 1,050	$ (2,897)	$ (2,457)
Financial Services Businesses:			
Realized investment gains (losses), net:			
Fixed maturity securities	$ (361)	$ (823)	$ (1,647)
Equity securities	11	(402)	(941)
Commercial mortgage and other loans	35	(517)	(170)
Derivative instruments	601	171	282
Other	(30)	(41)	4
Total	256	(1,612)	(2,472)
Related adjustments(1)	(150)	393	(305)
Realized investment gains (losses), net, and related adjustments	$ 106	$ (1,219)	$ (2,777)
Related charges(2)	$ (178)	$ (492)	$ 293
Closed Block Business:			
Realized investment gains (losses), net:			
Fixed maturity securities	$ 117	$ (381)	$ (451)
Equity securities	174	(473)	(441)
Commercial mortgage and other loans	18	(85)	(29)
Derivative instruments	489	(298)	958
Other	(4)	(48)	(22)
Total	$ 794	$ (1,285)	$ 15

(1) Related adjustments include that portion of "Realized investment gains (losses), net," that are included in adjusted operating income, including those pertaining to certain derivative contracts, as well as those within certain of our businesses for which such gains (losses) are a principal source of earnings. Related adjustments also include that portion of "Asset management fees and other income" that are excluded from adjusted operating income, including the change in value due to the impact of changes in foreign currency exchange rates during the period on certain assets and liabilities for which we economically hedge the foreign currency exposure, realized and unrealized gains and losses on certain general account investments classified as "Other trading account assets," as well as counterparty credit losses on derivative positions. See Note 22 to the Consolidated Financial Statements for additional information on these related adjustments.

(2) Reflects charges that are excluded from adjusted operating income, as described more fully in Note 22 to the Consolidated Financial Statements.

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2010 to 2009 Annual Comparison

Financial Services Businesses

The Financial Services Businesses net realized investment gains in 2010 were $256 million, compared to net realized investment losses of $1,612 million in 2009.

Net realized losses on fixed maturity securities were $361 million in 2010, compared to net realized losses of $823 million in 2009, as set forth in the following table:

	Year Ended December 31, 2010	2009
	(in millions)	
Realized investment gains (losses), net Fixed Maturity Securities Financial Services Businesses		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 380	$ 788
Private bond prepayment premiums	37	19
Total gross realized investment gains	417	807
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(2)	(564)	(1,174)
Gross losses on sales and maturities(1)	(173)	(319)
Credit related losses on sales	(41)	(137)
Total gross realized investment losses	(778)	(1,630)
Realized investment gains (losses), net Fixed Maturity Securities	$ (361)	$ (823)
Net gains (losses) on sales and maturities Fixed Maturity Securities(1)	$ 207	$ 469

(1) Amounts exclude prepayment premiums, other-than-temporary impairments, and credit related losses through sales of investments pursuant to our credit risk and portfolio management objectives.
(2) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

Net trading gains on sales and maturities of fixed maturity securities of $207 million in 2010 were primarily due to sales within our Retirement and Individual Annuities segments. Included in the gross gains on sales and maturities of fixed maturity securities were $4 million of gross gains related to the sale of asset-backed securities collateralized by sub-prime mortgages. Net trading gains on sales and maturities of fixed maturity securities of $469 million in 2009 were primarily due to sales of government bonds in our Gibraltar Life and Japanese Life Planner operations and sales within our Individual Annuities segment. Sales of fixed maturity securities in our Individual Annuities segment were primarily due to transfers of investments out of our general account and into separate accounts relating to an automatic rebalancing element embedded in the living benefit features of some of our variable annuity products. There were no sales in 2009 related to asset-backed securities collateralized by sub-prime mortgages. See General Account Investments Fixed Maturity Securities Asset-Backed Securities for additional information regarding our exposure to sub-prime mortgages. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in 2010 and 2009.

Net realized gains on equity securities were $11 million in 2010, of which net trading gains on sales of equity securities were $89 million, partially offset by other-than-temporary impairments of $78 million. Net trading gains in 2010 were primarily due to private equity sales within our Corporate and Other operations and sales within our International Insurance operations. Net realized losses on equity securities were $402 million in 2009, of which other-than-temporary impairments were $389 million and net trading losses on sales of equity securities were $13 million. Net trading losses in 2009 were primarily due to sales within our Gibraltar Life operations. See below for additional information regarding the other-than-temporary impairments of equity securities in 2010 and 2009.

Net realized gains on commercial mortgage and other loans in 2010 were $35 million and primarily related to a net decrease in the loan loss reserves of $103 million and mark-to-market net gains on our interim loan portfolio of $17 million. These net gains were partially offset by net realized losses on loan modifications, payoffs, and foreclosures within our commercial mortgage operations. Net losses on commercial mortgage and other loans in 2009 were $517 million primarily related to the net increase in the loan loss reserve of $317 million and mark-to-market losses on mortgage loans within our commercial mortgage operations. For additional information regarding our commercial mortgage and other loan loss reserves see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality.

Net realized gains on derivatives were $601 million in 2010, compared to net realized gains of $171 million in 2009. The net derivative gains in 2010 primarily reflect net gains of $521 million on interest rate derivatives used to manage duration as interest rates declined and net gains of $325 million primarily related to embedded derivatives and related hedge positions associated with certain variable annuity contracts. See Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities for additional information. Also contributing to these gains are net derivative gains of $99 million on currency derivatives used to hedge foreign denominated investments and net gains of $43 million on embedded derivatives associated with certain externally-managed investments in the European market. Partially offsetting these gains were net derivative losses of $319 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses primarily in Japan and net losses of $75 million on credit derivatives as credit spreads tightened. The net derivative gains in 2009 primarily reflect net gains of $376 million on embedded derivatives and related hedge positions associated with certain variable annuity contracts. Also contributing to the net derivative gains in 2009 were net gains of $196 million on embedded derivatives associated with certain externally-managed investments in the European market and net gains of $87 million on mark-to-market adjustments from credit derivatives. Partially offsetting these gains were net mark-to-market losses of $376 million on interest rate derivatives used to manage duration and net losses of $121 million on currency derivatives used to hedge foreign denominated investments.

Net realized losses on other investments were $30 million in 2010, which reflected $30 million of other other-than-temporary impairments on joint ventures and partnerships and real estate investments. Net realized losses on other investments were $41 million in 2009, which included $48 million of other-than-temporary impairments on joint ventures and partnerships and losses on investment real estate in our asset management operations.

During 2010, we recorded other-than-temporary impairments of $672 million in earnings, compared to total other-than-temporary impairments of $1,611 million recorded in earnings in 2009. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the Financial Services Businesses by asset type, and for fixed maturity securities, by reason.

	Year Ended December 31,	
	2010	2009
	(in millions)	
Other-than-temporary impairments recorded in earnings Financial Services Businesses(1)		
Public fixed maturity securities	$ 422	$ 1,022
Private fixed maturity securities	142	152
Total fixed maturity securities	564	1,174
Equity securities	78	389
Other invested assets(2)	30	48
Total	$ 672	$ 1,611

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

	Year Ended December 31, 2010		
	Asset-Backed Securities Collateralized By Sub-Prime Mortgages	All Other Fixed Maturity Securities	Total Fixed Maturity Securities
		(in millions)	
Other-than-temporary impairments on fixed maturity securities recorded in earnings Financial Services Businesses(1)			
Due to credit events or adverse conditions of the respective issuer(2)	$ 140	$ 185	$ 325
Due to other accounting guidelines(3)	69	170	239
Total	$ 209	$ 355	$ 564

	Year Ended December 31, 2009		
	Asset-Backed Securities Collateralized By Sub-Prime Mortgages	All Other Fixed Maturity Securities	Total Fixed Maturity Securities
		(in millions)	
Other-than-temporary impairments on fixed maturity securities recorded in earnings Financial Services Businesses(1)			
Due to credit events or adverse conditions of the respective issuer(2)	$ 653	$ 321	$ 974
Due to other accounting guidelines(3)	15	185	200
Total	$ 668	$ 506	$ 1,174

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

(2) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.

(3) Primarily represents circumstances where we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

Fixed maturity other-than-temporary impairments in 2010 were concentrated in asset-backed securities collateralized by sub-prime mortgages, Japanese commercial mortgage-backed securities, and the services, manufacturing, and finance sectors of our corporate securities. These other-than-temporary impairments were primarily driven by asset-backed securities collateralized by sub-prime mortgages that reflect adverse financial conditions of the respective issuers, the impact of the rising forward LIBOR curve and the intent to sell securities. Additionally, other-than-temporary impairments were driven by Japanese commercial mortgage-backed securities that reflect adverse financial conditions of the respective issuers, and foreign currency translation losses related to foreign denominated securities that are approaching maturity. Our Japanese insurance operations hold U.S. dollar-denominated investments which in some cases, due primarily to the strengthening of the yen, are currently in an unrealized loss position. As they approach maturity and remain in an unrealized loss position, it becomes less likely that the exchange rates will recover and more likely that losses will be realized upon maturity. Accordingly, additional impairments would be recorded in earnings. As of December 31, 2010, gross unrealized losses related to those securities maturing between January 1, 2011 and December 31, 2012 are $201 million. Based on December 31, 2010 fair values, absent a change in currency rates, impairments of approximately $169 million would be recorded in earnings in 2011. During 2010, we recorded other-than-temporary impairments of $143 million in earnings related to securities with an unrealized foreign currency translation loss that are approaching maturity. Fixed maturity other-than-temporary impairments in 2009 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and the manufacturing and services sectors of our corporate securities, and were primarily driven by liquidity concerns, downgrades in

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credit, bankruptcy or other adverse financial conditions of the respective issuers, which have caused, or we believe will lead to, a deficiency in the contractual cash flows related to the investment.

Equity security other-than-temporary impairments in 2010 and 2009 were primarily driven by circumstances where the decline in value was maintained for one year or greater or where we intend to sell the security. Equity security other-than-temporary impairments in 2010 were primarily in our Japanese insurance operations equity portfolios. Equity security other-than-temporary impairments in 2009 were primarily driven by declines in value of fund shares representing our interest in high yield bond funds of certain of our separate account investments supporting corporate-owned life insurance and circumstances where we lack the ability or intent to retain the security to recovery.

Closed Block Business

For the Closed Block Business, net realized investment gains in 2010 were $794 million, compared to net realized investment losses of $1,285 million in 2009.

Net realized gains on fixed maturity securities were $117 million in 2010, compared to net realized losses of $381 million in 2009, as set forth in the following table:

	Year Ended December 31, 2010	2009
	(in millions)	
Realized investment gains (losses), net Fixed Maturity Securities Closed Block Business		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 273	$ 199
Private bond prepayment premiums	24	19
Total gross realized investment gains	297	218
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(2)	(168)	(520)
Gross losses on sales and maturities(1)	(10)	(72)
Credit related losses on sales	(2)	(7)
Total gross realized investment losses	(180)	(599)
Realized investment gains (losses), net Fixed Maturity Securities	$ 117	$ (381)
Net gains (losses) on sales and maturities Fixed Maturity Securities(1)	$ 263	$ 127

(1) Amounts exclude prepayment premiums, other-than-temporary impairments, and credit related losses through sales of investments pursuant to our credit risk and portfolio management objectives.
(2) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

Net trading gains on sales and maturities of fixed maturity securities of $263 million in 2010 included $3 million of gross gains on sales or maturities related to asset-backed securities collateralized by sub-prime mortgages in 2010. See General Account Investments Fixed Maturity Securities Asset-Backed Securities for additional information regarding our exposure to sub-prime mortgages. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in 2010 and 2009.

Net realized gains on equity securities were $174 million in 2010. Net trading gains on sales of equity securities were $208 million, partially offset by other-than-temporary impairments of $34 million. Net realized losses on equity securities were $473 million in 2009, of which other-than-temporary impairments were $613 million, partially offset by net trading gains on sales of equity securities of $140 million. These gains reflect improved equity markets throughout 2010 and 2009 coupled with the current equity trading strategy which produced gains as the years progressed. See below for additional information regarding the other-than-temporary impairments of equity securities in 2010 and 2009.

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Net realized gains on commercial mortgage and other loans in 2010 were $18 million related to a net decrease in the loan loss reserve of $22 million, partially offset by net realized losses. Net realized losses on commercial mortgage and other loans in 2009 were $85 million related to a net increase in the loan loss reserve of $82 million and other net realized losses. For additional information regarding our loan loss reserves see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality.

Net realized gains on derivatives were $489 million in 2010, compared to net realized losses of $298 million in 2009. Derivative gains in 2010 primarily reflect net mark-to-market gains of $404 million on interest rate derivatives used to manage duration as interest rates declined and net derivative gains of $74 million on currency derivatives used to hedge foreign denominated investments. Also, contributing to the net derivative gains were net realized gains of $17 million on embedded derivatives associated with certain externally-managed investments in the European market. Derivative losses in 2009 primarily reflect net mark-to-market losses of $218 million on interest rate derivatives used to manage the duration of the fixed maturity investment portfolio and net losses of $149 million related to currency derivatives used to hedge foreign denominated investments. Partially offsetting these losses were net gains of $52 million on embedded derivatives associated with certain externally-managed investments in the European market.

Net realized losses on other investments were $4 million in 2010, which included $6 million of other-than-temporary impairments on joint ventures and partnerships investments. Net realized losses on other investments were $48 million in 2009 of which $51 million was related to other-than-temporary impairments on joint ventures and partnerships investments.

During 2010, we recorded other-than-temporary impairments of $208 million in earnings, compared to other-than-temporary impairments of $1,184 million recorded in earnings in 2009. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the Closed Block Business by asset type, and for fixed maturity securities, by reason.

	Year Ended December 31,	
	2010	2009
	(in millions)	
Other-than-temporary impairments recorded in earnings Closed Block Business(1)		
Public fixed maturity securities	$ 158	$ 465
Private fixed maturity securities	10	55
Total fixed maturity securities	168	520
Equity securities	34	613
Other invested assets(2)	6	51
Total	$ 208	$ 1,184

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

	Year Ended December 31, 2010		
	Asset-Backed Securities Collateralized By Sub-Prime Mortgages	All Other Fixed Maturity Securities	Total Fixed Maturity Securities
		(in millions)	

Other-than-temporary impairments on fixed maturity securities recorded in earnings Closed Block Business(1)			
Due to credit events or adverse conditions of the respective issuer(2)	$ 66	$ 28	$ 94
Due to other accounting guidelines(3)	67	7	74
Total	$ 133	$ 35	$ 168

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	Year Ended December 31, 2009		
	Asset-Backed Securities Collateralized By Sub-Prime Mortgages	All Other Fixed Maturity Securities	Total Fixed Maturity Securities
		(in millions)	
Other-than-temporary impairments on fixed maturity securities recorded in earnings Closed Block Business(1)			
Due to credit events or adverse conditions of the respective issuer(2)	$ 319	$ 189	$ 508
Due to other accounting guidelines(3)	3	9	12
Total	$ 322	$ 198	$ 520

(1) Excludes the portion of other-than-temporary impairment recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.
(3) Primarily represents circumstances where we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

Fixed maturity other-than-temporary impairments in 2010 were concentrated in asset-backed securities collateralized by sub-prime mortgages that reflect adverse financial conditions of the respective issuers as well as our intent to sell certain asset-backed securities collateralized by sub-prime mortgages. Fixed maturity other-than-temporary impairments in 2009 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and the manufacturing and services sectors of our corporate securities and were primarily driven by liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers, which have caused, or we believe will lead to, a deficiency in the contractual cash flows related to the investment.

Equity security other-than-temporary impairments in 2010 and 2009 were primarily due to circumstances where the decline in value was maintained for one year or greater.

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2009 to 2008 Annual Comparison

Financial Services Businesses

The Financial Services Businesses net realized investment losses in 2009 were $1,612 million, compared to net realized investment losses of $2,472 million in 2008.

Net realized losses on fixed maturity securities were $823 million in 2009, compared to net realized losses of $1,647 million in 2008, as set forth in the following table:

	Year Ended December 31, 2009	2008
	(in millions)	
Realized investment gains (losses), net Fixed Maturity Securities Financial Services Businesses		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 788	$ 465
Private bond prepayment premiums	19	33
Total gross realized investment gains	807	498
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(2)	(1,174)	(1,679)
Gross losses on sales and maturities(1)	(319)	(354)
Credit related losses on sales	(137)	(112)
Total gross realized investment losses	(1,630)	(2,145)
Realized investment gains (losses), net Fixed Maturity Securities	$ (823)	$ (1,647)
Net gains (losses) on sales and maturities Fixed Maturity Securities(1)	$ 469	$ 111

(1) Amounts exclude prepayment premiums, other-than-temporary impairments, and credit related losses through sales of investments pursuant to our credit risk and portfolio management objectives.
(2) Excludes the portion of 2009 other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

Net trading gains on sales and maturities of fixed maturity securities of $469 million in 2009 were primarily due to sales of government bonds in our Gibraltar Life and Japanese Life Planner operations and sales within our Individual Annuities segment. Sales of fixed maturity securities in our Individual Annuities segment were primarily due to transfers of investments out of our general account and into separate accounts relating to an automatic rebalancing element embedded in the living benefit features of some of our variable annuity products. Net trading gains on sales and maturities of fixed maturity investments of $111 million in 2008, were primarily related to sales of government bonds in our Gibraltar Life and Japanese Life Planner operations. None of the gross losses on sales and maturities in 2009 and 2008 related to asset-backed securities collateralized by sub-prime mortgages. See General Account Investments Fixed Maturity Securities Asset-Backed Securities for additional information regarding our exposure to sub-prime mortgages. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in 2009 and 2008.

Net realized losses on equity securities were $402 million in 2009, of which other-than-temporary impairments were $389 million and net trading losses on sales of equity securities were $13 million. Net trading losses in 2009 were primarily due to sales within our Gibraltar Life operations. Net realized losses on equity securities were $941 million in 2008, of which other-than-temporary impairments were $815 million and net trading losses on sales of equity securities were $126 million. Net trading losses in 2008 were primarily due to sales within our Gibraltar Life and Life Planner operations. See below for additional information regarding the other-than-temporary impairments of equity securities in 2009 and 2008.

Net realized gains on derivatives were $171 million in 2009, compared to net realized gains of $282 million in 2008. The net derivative gains in 2009 primarily reflect net gains of $376 million on embedded derivatives and related hedge positions associated with certain variable annuity contracts. See Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities for additional information. Also contributing to the net derivative gains in 2009 were net gains of $196 million on embedded derivatives associated with certain externally-managed investments in the

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European market and net gains of $87 million on mark to market adjustments from credit derivatives. Partially offsetting these gains were net mark-to-market losses of $376 million on interest rate derivatives used to manage duration and net losses of $121 million on currency derivatives used to hedge foreign denominated investments. The net derivative gains in 2008 primarily reflect net mark-to-market gains of $985 million on interest rate derivatives used to manage duration, net gains of $226 million on currency derivatives used to hedge foreign investments in our domestic investment portfolio and net gains of $124 million related to equity market hedges used in our asset management business. Partially offsetting these gains were net mark-to-market losses of $621 million on embedded derivatives associated with certain externally-managed investments in the European market and net losses of $456 million on embedded derivatives and related hedge positions associated with certain variable annuity contracts.

Net realized losses on commercial mortgage and other loans and other investments were $558 million in aggregate in 2009, primarily related to $317 million of increases to commercial mortgage and other loan loss reserves. The remaining $241 million of net realized losses on other investments was primarily driven by mark-to-market losses on mortgage loans within our commercial mortgage operations and losses on investment real estate in our asset management operations, as well as $48 million of other other-than-temporary impairments on joint ventures and partnerships and real estate investments. Net realized losses on commercial mortgage and other loans and other investments were $166 million in aggregate in 2008, primarily related to mark-to-market losses on mortgage loans within our divested commercial mortgage securitization operations due to instability in the commercial real estate market during 2008. For additional information regarding our commercial mortgage and other loan loss reserves see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality.

During 2009, we recorded other-than-temporary impairments of $1,611 million in earnings, compared to total other-than-temporary impairments of $2,533 million recorded in earnings in 2008. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the Financial Services Businesses by asset type, and for fixed maturity securities, by reason.

	Year Ended December 31, 2009	2008
	(in millions)	
Other-than-temporary impairments recorded in earnings Financial Services Businesses(1)		
Public fixed maturity securities	$ 1,022	$ 1,549
Private fixed maturity securities	152	130
Total fixed maturity securities	1,174	1,679
Equity securities	389	815
Other invested assets(2)	48	39
Total	$ 1,611	$ 2,533

(1) Excludes the portion of 2009 other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Includes other-than-temporary impairments relating to investments in joint ventures and partnerships.

	Year Ended December 31, 2009		
	Asset-Backed Securities Collateralized By Sub-Prime Mortgages	All Other Fixed Maturity Securities	Total Fixed Maturity Securities
		(in millions)	
Other-than-temporary impairments on fixed maturity securities recorded in earnings Financial Services Businesses(1)			

Due to credit events or adverse conditions of the respective issuer(2)	$ 653	$ 321	$ 974
Due to other accounting guidelines(3)	15	185	200
Total	$ 668	$ 506	$ 1,174

(1) Excludes the portion of 2009 other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

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(2) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.

(3) Primarily represents circumstances where we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis and amounts related to foreign currency translation losses for securities approaching maturity.

	Year Ended December 31, 2008		
	Asset-Backed Securities Collateralized By Sub-Prime Mortgages	All Other Fixed Maturity Securities	Total Fixed Maturity Securities
		(in millions)	
Other-than-temporary impairments on fixed maturity securities recorded in earnings Financial Services Businesses			
Due to credit events or adverse conditions of the respective issuer(1)	$ 265	$ 476	$ 741
Due to other accounting guidelines(2)	705	233	938
Total	$ 970	$ 709	$ 1,679

(1) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. In certain of these circumstances the decrease in fair value, at the time the impairment was recorded, was partially driven by general credit spread widening or liquidity concerns and we believe the recoverable value of the investment, based on the expected future cash flows, is greater than the current fair value.

(2) Includes certain circumstances relating to asset-backed securities with a credit rating below AA, where the present value of prospective cash flows of the security have declined, but we do not believe credit events or other adverse conditions of the respective issuers have caused a deficiency in the contractual cash flows related to the investment. Also includes circumstances where we cannot assert our ability or intent to hold for a period of time to allow for a recovery of value. In certain of these circumstances the decrease in fair value, at the time the impairment was recorded, was driven primarily by general credit spread widening or liquidity concerns, and we believe the recoverable value of the investment, based on the expected future cash flows, is greater than the current fair value.

Fixed maturity other-than-temporary impairments in 2009 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and the manufacturing and services sectors of our corporate securities, and were primarily driven by liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers, which have caused, or we believe will lead to, a deficiency in the contractual cash flows related to the investment. Equity security other-than-temporary impairments in 2009 were primarily driven by declines in value of fund shares representing our interest in high yield bond funds of certain of our separate account investments supporting corporate owned life insurance and circumstances where we lack the ability or intent to retain the security to recovery. Fixed maturity other-than-temporary impairments in 2008 were concentrated in asset-backed securities and the finance, services, and manufacturing sectors of our corporate securities, and were primarily driven by credit spread increases, liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. Fixed maturity other-than-temporary impairments in 2008 included $84 million related to the filing of a Chapter 11 bankruptcy petition by Lehman Brothers and $50 million related to American International Group, or AIG. Equity security other-than-temporary impairments in 2008 were primarily driven by overall declines in the Japanese equity markets and value declines in our mutual fund shares representing our interest in high yield bond funds of certain of our separate account investments supporting corporate owned life insurance.

As mentioned above, fixed maturity other-than-temporary impairments in 2008 included $84 million related to the filing of a bankruptcy petition by Lehman Brothers. In addition, 2008 also included a $75 million loss associated with this bankruptcy filing relating to the unsecured portion of our counterparty exposure on derivative transactions we had entered into with Lehman Brothers and its affiliates. We replaced these derivative positions with various other counterparties. The loss was included in Asset management fees and other income, under the broker-dealer accounting model followed by our affiliated derivative subsidiary that executed these transactions, and was excluded from adjusted operating income as a related adjustment to Realized investment gains (losses), net. See Note 22 to the Consolidated Financial Statements for additional information.

Closed Block Business

For the Closed Block Business, net realized investment losses in 2009 were $1,285 million, compared to net realized investment gains of $15 million in 2008.

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Net realized losses on fixed maturity securities were $381 million in 2009, compared to net realized losses of $451 million in 2008, as set forth in the following table:

	Year Ended December 31, 2009	2008
	(in millions)	
Realized investment gains (losses), net Fixed Maturity Securities Closed Block Business		
Gross realized investment gains:		
Gross gains on sales and maturities(1)	$ 199	$ 537
Private bond prepayment premiums	19	27
Total gross realized investment gains	218	564
Gross realized investment losses:		
Net other-than-temporary impairments recognized in earnings(2)	(520)	(718)
Gross losses on sales and maturities(1)	(72)	(259)
Credit related losses on sales	(7)	(38)
Total gross realized investment losses	(599)	(1,015)
Realized investment gains (losses), net Fixed Maturity Securities	$ (381)	$ (451)
Net gains (losses) on sales and maturities Fixed Maturity Securities(1)	$ 127	$ 278

(1) Amounts exclude prepayment premiums, other-than-temporary impairments, and credit related losses through sales of investments pursuant to our credit risk and portfolio management objectives.
(2) Excludes the portion of 2009 other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.

Net gains on sales and maturities of fixed maturity securities of $127 million in 2009 were primarily due to sales related to our total return strategy. Gross losses on sales and maturities of fixed maturity securities of $72 million in 2009, declined in comparison to $259 million of such losses in 2008, primarily due to the restriction of our active trading policies, as discussed below. There were no gross losses on sales or maturities in 2009 or 2008 related to asset-backed securities collateralized by sub-prime mortgages. In light of the unprecedented market conditions and in consideration of the potential impact on capital and tax positions, beginning in the fourth quarter of 2008 we curtailed our active trading policy. Starting in the second quarter of 2009, we resumed a more restricted trading program in these portfolios. These restrictions resulted in a lower level of realized gains and losses in this portfolio than might otherwise have been incurred. Net gains on sales and maturities of fixed maturity securities of $278 million in 2008 were also primarily due to sales related to our total return strategy.

Net realized losses on equity securities were $473 million in 2009, of which other-than-temporary impairments were $613 million, partially offset by net trading gains on sales of equity securities of $140 million. These gains reflect improved equity markets throughout 2009 coupled with the current equity trading strategy which produced gains as the year progressed. Net realized losses on equity securities were $441 million in 2008, of which other-than-temporary impairments were $387 million, and net trading losses on sales of equity securities were $54 million. Net trading losses for 2008 reflect sales pursuant to our active management strategy, which was curtailed or partially restricted for 2009, as discussed above. See below for additional information regarding the other-than-temporary impairments of equity securities in 2009 and 2008.

Net realized losses on derivatives were $298 million in 2009, compared to net realized gains of $958 million in 2008. Derivative losses in 2009 primarily reflect net mark-to-market losses of $218 million on interest rate derivatives used to manage the duration of the fixed maturity investment portfolio and net losses of $149 million related to currency derivatives used to hedge foreign denominated investments. Partially offsetting these losses were net gains of $52 million on embedded derivatives associated with certain externally-managed investments in the

European market. Derivative gains in 2008 primarily reflect net mark-to-market gains of $824 million on interest rate derivatives used to manage duration and net gains of $149 million on currency derivatives used to hedge foreign denominated investments. Partially offsetting these gains are net losses of $105 million on embedded derivatives associated with certain externally-managed investments in the European market.

Net realized losses on commercial mortgage and other loans and other investments were $133 million in aggregate in 2009, including $51 million of other-than-temporary impairments on joint ventures and partnerships investments. The remaining $82 million was primarily related to increases to commercial mortgage loan loss

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reserves. Net realized losses on commercial mortgage and other loans and other investments were $51 million in aggregate in 2008, including $22 million related to other-than-temporary impairments on joint ventures and partnerships. For additional information regarding our commercial mortgage and other loan loss reserves see General Account Investments Commercial Mortgage and Other Loans Commercial Mortgage and Other Loan Quality.

During 2009 we recorded other-than-temporary impairments of $1,184 million in earnings, compared to other-than-temporary impairments of $1,127 million recorded in earnings in 2008. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments recorded in earnings attributable to the Closed Block Business by asset type, and for fixed maturity securities, by reason.

	Year Ended December 31, 2009	Year Ended December 31, 2008
	(in millions)	
Other-than-temporary impairments recorded in earnings Closed Block Business(1)		
Public fixed maturity securities	$ 465	$ 690
Private fixed maturity securities	55	28
Total fixed maturity securities	520	718
Equity securities	613	387
Other invested assets(2)	51	22
Total	$ 1,184	$ 1,127

(1) Excludes the portion of 2009 other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Includes other-than-temporary impairments relating to investments in joint ventures and partnerships.

	Year Ended December 31, 2009		
	Asset-Backed Securities Collateralized By Sub-Prime Mortgages	All Other Fixed Maturity Securities	Total Fixed Maturity Securities
		(in millions)	
Other-than-temporary impairments on fixed maturity securities recorded in earnings Closed Block Business(1)			
Due to credit events or adverse conditions of the respective issuer(2)	$ 319	$ 189	$ 508
Due to other accounting guidelines(3)	3	9	12
Total	$ 322	$ 198	$ 520

(1) Excludes the portion of 2009 other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.
(3) Primarily represents circumstances where we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

Year Ended December 31, 2008

	Asset-Backed Securities Collateralized By Sub-Prime Mortgages	All Other Fixed Maturity Securities (in millions)	Total Fixed Maturity Securities
Other-than-temporary impairments on fixed maturity securities recorded in earnings Closed Block Business			
Due to credit events or adverse conditions of the respective issuer(1)	$ 137	$ 179	$ 316
Due to other accounting guidelines(2)	326	76	402
Total	$ 463	$ 255	$ 718

(1) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. In certain of these circumstances the decrease in the fair value, at

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the time the impairment was recorded, was partially driven by general credit spread widening or liquidity concerns and we believe the recoverable value of the investment, based on the expected future cash flows, is greater than the current fair value.

(2) Includes certain circumstances relating to asset-backed securities with a credit rating below AA, where the present value of prospective cash flows of the security have declined, but we do not believe credit events or other adverse conditions of the respective issuers have caused a deficiency in the contractual cash flows related to the investment. Also includes circumstances where we cannot assert our ability or intent to hold for a period of time to allow for a recovery of value. In certain of these circumstances the decrease in fair value, at the time the impairment was recorded, was driven primarily by general credit spread widening or liquidity concerns, and we believe the recoverable value of the investment, based on the expected future cash flows, is greater than the current fair value.

Fixed maturity other-than-temporary impairments in 2009 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and the manufacturing and services sectors of our corporate securities and were primarily driven by liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers, which have caused, or we believe will lead to, a deficiency in the contractual cash flows related to the investment. Other-than-temporary impairments in 2008 were concentrated in asset-backed securities and the finance, services and manufacturing sectors of our corporate securities and were primarily driven by credit spread increases, liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. Fixed maturity other-than-temporary impairments in 2008 included $16 million related to the filing of a Chapter 11 bankruptcy petition by Lehman Brothers and $30 million related to AIG. Equity security other-than-temporary impairments in 2009 were primarily based on the extent and duration of the decline in value, as equity markets only partially recovered in the latter portion of 2009. Equity security other-than-temporary impairments in 2008 were primarily driven by overall declines in the equity markets.

General Account Investments

We maintain diversified investment portfolios in our insurance companies to support our liabilities to customers in our Financial Services Businesses and the Closed Block Business, as well as our other general liabilities. Our general account does not include: (1) assets of our brokerage, trading and banking operations, real estate and relocation services; (2) assets of our asset management operations, including assets managed for third parties; and (3) those assets classified as Separate account assets on our balance sheet.

The general account portfolio is managed pursuant to the distinct objectives and investment policy statements of the Financial Services Businesses and the Closed Block Business. The primary investment objectives of the Financial Services Businesses include:

- matching the liability characteristics of the major products and other obligations of the Company;
- maximizing the portfolio book yield within risk constraints over time; and
- for certain portfolios, maximizing total return, including both investment yield and capital gains, and preserving principal, within risk constraints, while matching the liability characteristics of their major products.

Our strategies for maximizing the portfolio book yield of the Financial Services Businesses over time include: (1) the investment of proceeds from investment sales, repayments and prepayments, and operating cash flows, into investments with competitive yields, and (2) where appropriate, the sale of the portfolio s lower yielding investments, either to meet various cash flow needs or to manage the portfolio s duration, credit, currency and other risk constraints, all while minimizing the amount of taxes on realized capital gains.

The primary investment objectives of the Closed Block Business include:

providing for the reasonable dividend expectations of the participating policyholders within the Closed Block Business and the Class B shareholders; and

maximizing total return, including both investment yield and capital gains, and preserving principal, within risk constraints, while matching the liability characteristics of the major products in the Closed Block Business.

In light of the recent market and economic conditions, while we continue to look to maximize book yield and match the liability characteristics of our major products, our portfolio management approach now reflects a greater consideration of the capital and tax implications of portfolio activity, as well as our assertions regarding our ability and intent to hold equity securities to recovery, and our lack of any intention or requirement to sell debt securities before anticipated recovery. In consideration of the potential impact on capital and tax positions, beginning in the fourth quarter of 2008 we temporarily curtailed the active trading policy previously employed in the Closed Block Business and certain portfolios of the Financial Services Businesses. Starting in the second quarter of 2009, we resumed a more restricted trading program in these portfolios, and continue to evaluate trading strategies for these portfolios. For a further discussion of our policies regarding other-than-temporary impairments, including our assertions regarding our ability and intent to hold equity securities to recovery and any intention or requirement to sell debt securities before anticipated recovery, see Fixed Maturity Securities Other-than-Temporary Impairments of Fixed Maturity Securities and Equity Securities Other-than-Temporary Impairments of Equity Securities, below.

Management of Investments

We design asset mix strategies and derivative strategies for our general account to match the characteristics of our products and other obligations and seek to closely approximate the interest rate sensitivity, but not necessarily the exact cash flow characteristics, of the assets with the estimated interest rate sensitivity of the product liabilities. In certain markets, primarily outside the U.S., capital market limitations hinder our ability to acquire assets that closely approximate the duration of some of our liabilities. We achieve income objectives through asset/liability management, strategic and tactical asset allocations and derivative strategies within a disciplined risk management framework. Derivative strategies are employed within our risk management framework to help manage duration gaps, currency, and other risks between assets and liabilities. For a discussion of our risk management process see Quantitative and Qualitative Disclosures About Market Risk Risk Management, Market Risk and Derivative Instruments, and Other Than Trading Activities Insurance and Annuity Products Asset/Liability Management.

Our asset allocation also reflects our desire for broad diversification across asset classes, sectors and issuers. The Asset Management segment manages virtually all of our investments, other than those managed by our International Insurance segment, under the direction and oversight of the Asset Liability Management and Risk Management groups. Our International Insurance segment manages the majority of its investments locally, within enterprise risk constraints, in most cases using the international and domestic asset management capabilities of our International Investments or Asset Management segments.

The Investment Committee of our Board of Directors oversees our proprietary investments. It also reviews performance and risk positions periodically. Our Asset Liability Management and Risk Management groups develop the investment policy for the general account assets of our insurance subsidiaries, oversee the investment process for our general account and have the authority to initiate tactical shifts within exposure ranges approved annually by the Investment Committee.

The Asset Liability Management and Risk Management groups work closely with each of our business units to ensure that the specific characteristics of our products are incorporated into their processes and to develop investment objectives, including performance factors and measures and asset allocation ranges. We adjust this dynamic process as products change, as customer behavior changes and as changes in the market environment occur. We develop asset strategies for specific classes of product liabilities and attributed or accumulated surplus, each with distinct risk characteristics. Most of our products can be categorized into the following three classes:

- interest-crediting products for which the rates credited to customers are periodically adjusted to reflect market and competitive forces and actual investment experience, such as fixed annuities and universal life insurance;

participating individual and experience-rated group products in which customers participate in actual investment and business results through annual dividends, interest or return of premium; and

guaranteed products for which there are price or rate guarantees for the life of the contract, such as GICs and funding agreements.

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We determine a target asset mix for each product class, which we reflect in our investment policies. Our asset/liability management process has permitted us to manage interest-sensitive products successfully through several market cycles.

Portfolio Composition

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, equity securities and other invested assets. The composition of our general account reflects, within the discipline provided by our risk management approach, our need for competitive results and the selection of diverse investment alternatives available primarily through our Asset Management segment. The size of our portfolio enables us to invest in asset classes that may be unavailable to the typical investor. The following tables set forth the composition of the investments of our general account apportioned between the Financial Services Businesses and the Closed Block Business as of the dates indicated.

	December 31, 2010			
	Financial Services Businesses	Closed Block Business	Total	% of Total
	($ in millions)			
Fixed Maturities:				
Public, available for sale, at fair value	$ 124,577	$ 30,499	$ 155,076	56.3%
Public, held to maturity, at amortized cost	3,940	0	3,940	1.4
Private, available for sale, at fair value	23,108	14,678	37,786	13.7
Private, held to maturity, at amortized cost	1,286	0	1,286	0.5
Trading account assets supporting insurance liabilities, at fair value	17,771	0	17,771	6.5
Other trading account assets, at fair value	1,220	156	1,376	0.5
Equity securities, available for sale, at fair value	4,135	3,593	7,728	2.8
Commercial mortgage and other loans, at book value	21,901	8,507	30,408	11.0
Policy loans, at outstanding balance	5,290	5,377	10,667	3.9
Other long-term investments(1)	2,988	1,582	4,570	1.6
Short-term investments(2)	3,698	1,164	4,862	1.8
Total general account investments	209,914	65,556	275,470	100.0%
Invested assets of other entities and operations(3)	8,442	0	8,442	
Total investments	$ 218,356	$ 65,556	$ 283,912	

	December 31, 2009			
	Financial Services Businesses	Closed Block Business	Total	% of Total
	($ in millions)			
Fixed Maturities:				
Public, available for sale, at fair value	$ 111,268	$ 29,537	$ 140,805	55.7%
Public, held to maturity, at amortized cost	4,009	0	4,009	1.6
Private, available for sale, at fair value	19,424	12,994	32,418	12.8
Private, held to maturity, at amortized cost	1,111	0	1,111	0.5
Trading account assets supporting insurance liabilities, at fair value	16,020	0	16,020	6.3
Other trading account assets, at fair value	1,616	167	1,783	0.7
Equity securities, available for sale, at fair value	3,798	3,085	6,883	2.7
Commercial mortgage and other loans, at book value	21,281	8,363	29,644	11.7
Policy loans, at outstanding balance	4,728	5,418	10,146	4.0
Other long-term investments(1)	2,811	1,545	4,356	1.7

Short-term investments(2)	4,302	1,338	5,640	2.3
Total general account investments	190,368	62,447	252,815	100.0%
Invested assets of other entities and operations(3)	7,737	0	7,737	
Total investments	$ 198,105	$ 62,447	$ 260,552	

(1) Other long-term investments consist of real estate and non-real estate related investments in joint ventures and partnerships, investment real estate held through direct ownership and other miscellaneous investments. For additional information regarding these investments, see Other Long-Term Investments below.

(2) Short-term investments have virtually no sub-prime exposure.

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(3) Includes invested assets of brokerage, trading and banking operations, real estate and relocation services, and asset management operations. Excludes assets of our asset management operations managed for third parties and those assets classified as Separate account assets on our balance sheet. For additional information regarding these investments, see Invested Assets of Other Entities and Operations below.

As of December 31, 2010, the average duration of our general account investment portfolio attributable to the domestic Financial Services Businesses, including the impact of derivatives, is between 4 and 5 years. The increase in general account investments attributable to the Financial Services Businesses in 2010 was primarily due to portfolio growth as a result of reinvestment of net investment income and a net increase in fair value driven by a decrease in risk free rates. The increase in general account investments attributable to the Closed Block Business in 2010 was primarily due to portfolio growth as a result of reinvestment of net investment income and a net increase in fair value driven by a decrease in risk free rates, partially offset by net operating outflows. For information regarding the methodology used in determining the fair value of our fixed maturities, see Note 20 to the Consolidated Financial Statements.

We have substantial insurance operations in Japan, with 38% and 36% of our Financial Services Businesses general account investments relating to our Japanese insurance operations as of December 31, 2010 and 2009, respectively. The following table sets forth the composition of the investments of our Japanese insurance operations general account as of the dates indicated.

	December 31,	
	2010	2009
	(in millions)	
Fixed Maturities:		
Public, available for sale, at fair value	$ 60,115	$ 50,476
Public, held to maturity, at amortized cost	3,940	4,009
Private, available for sale, at fair value	3,304	2,692
Private, held to maturity, at amortized cost	1,286	1,111
Trading account assets supporting insurance liabilities, at fair value	1,376	1,236
Other trading account assets, at fair value	844	804
Equity securities, available for sale, at fair value	1,612	1,508
Commercial mortgage and other loans, at book value	4,202	3,675
Policy loans, at outstanding balance	2,083	1,760
Other long-term investments(1)	1,320	1,524
Short-term investments	211	313
Total Japanese general account investments(2)	$ 80,293	$ 69,108

(1) Other long-term investments consist of real estate and non-real estate related investments in joint ventures and partnerships, investment real estate held through direct ownership, derivatives, and other miscellaneous investments.
(2) Excludes assets classified as Separate accounts assets on our balance sheet.

As of December 31, 2010, the average duration of our general account investment portfolio related to our Japanese insurance operations, including the impact of derivatives, is approximately 12 years. The increase in general account investments related to our Japanese insurance operations in 2010 is primarily attributable to the impact of changes in foreign currency exchange rates, portfolio growth as a result of business inflows and a net increase in fair value driven by a decrease in risk free rates.

Our Japanese insurance operations use the yen as their functional currency, as it is the currency in which they conduct the majority of their operations. Although the majority of the Japanese general account is invested in yen denominated investments, our Japanese insurance operations also hold significant investments denominated in U.S. dollars. As of December 31, 2010, our Japanese insurance operations had $18.2 billion, at fair value, of investments denominated in U.S. dollars, including $0.7 billion that were hedged to yen through third party derivative contracts and $10.7 billion that support liabilities denominated in U.S. dollars. As of December 31, 2009, our Japanese insurance operations had $14.8 billion, at fair value, of investments denominated in U.S. dollars, including $0.5 billion that were hedged to yen through third party derivative contracts and $7.9 billion that support liabilities denominated in U.S. dollars. For additional information regarding U.S. dollar investments held in our Japanese insurance operations see, Results of Operations for Financial Services Businesses by Segment International Insurance and Investments Division.

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Investment Results

The following tables set forth the income yield and investment income, excluding realized investment gains (losses) and non-hedge accounting derivative results, for each major investment category of our general account for the periods indicated.

	Year Ended December 31, 2010					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)					
Fixed maturities	4.33%	$ 5,927	5.91%	$ 2,326	4.69%	$ 8,253
Trading account assets supporting insurance liabilities	4.51	750	0.00	0	4.51	750
Equity securities	6.33	212	2.70	74	4.70	286
Commercial mortgage and other loans	6.01	1,256	6.61	536	6.18	1,792
Policy loans	5.00	243	6.38	334	5.71	577
Short-term investments and cash equivalents	0.32	36	0.56	5	0.33	41
Other investments	4.71	193	6.66	115	5.28	308
Gross investment income before investment expenses	4.39	8,617	5.88	3,390	4.73	12,007
Investment expenses	(0.13)	(208)	(0.24)	(143)	(0.15)	(351)
Investment income after investment expenses	4.26%	8,409	5.64%	3,247	4.58%	11,656
Investment results of other entities and operations(2)		219		0		219
Total investment income		$ 8,628		$ 3,247		$ 11,875

	Year Ended December 31, 2009					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)					
Fixed maturities	4.54%	$ 5,691	6.07%	$ 2,382	4.90%	$ 8,073
Trading account assets supporting insurance liabilities	5.11	743	0.00	0	5.11	743
Equity securities	6.32	225	2.85	77	4.82	302
Commercial mortgage and other loans	5.85	1,237	6.68	556	6.08	1,793
Policy loans	5.19	225	6.54	344	5.93	569
Short-term investments and cash equivalents	0.52	66	3.02	31	0.68	97
Other investments	3.16	138	(4.01)	(72)	1.06	66
Gross investment income before investment expenses	4.50	8,325	5.69	3,318	4.78	11,643
Investment expenses	(0.15)	(218)	(0.23)	(140)	(0.17)	(358)
Investment income after investment expenses	4.35%	8,107	5.46%	3,178	4.61%	11,285
Investment results of other entities and operations(2)		118		0		118
Total investment income		$ 8,225		$ 3,178		$ 11,403

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	Year Ended December 31, 2008					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	4.86%	$ 5,662	6.40%	$ 2,664	5.26%	$ 8,326
Trading account assets supporting insurance liabilities	5.34	749	0.00	0	5.34	749
Equity securities	5.01	223	3.17	101	4.24	324
Commercial mortgage and other loans	6.01	1,241	6.60	542	6.18	1,783
Policy loans	5.24	208	6.42	336	5.91	544
Short-term investments and cash equivalents	2.82	304	10.67	101	3.17	405
Other investments	4.26	140	(2.92)	(44)	2.01	96
Gross investment income before investment expenses	4.93	8,527	6.05	3,700	5.22	12,227
Investment expenses	(0.15)	(295)	(0.24)	(278)	(0.17)	(573)
Investment income after investment expenses	4.78%	8,232	5.81%	3,422	5.05%	11,654
Investment results of other entities and operations(2)		207		0		207
Total investment income		$ 8,439		$ 3,422		$ 11,861

(1) Yields are based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on cost. Yields for fixed maturities and short-term investments and cash equivalents are calculated net of liabilities and rebate expenses corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets. Prior periods yields are presented on a basis consistent with the current period presentation.

(2) Includes investment income of securities brokerage, securities trading, banking operations, real estate and relocation services, and asset management operations.

See below for a discussion of the change in the Financial Services Businesses yields. The increase in net investment income yield attributable to the Closed Block Business for 2010 compared to 2009, was primarily due to investments in joint ventures and limited partnerships, driven by appreciation and gains on the underlying assets, partially offset by the impact of lower interest rates on floating rate investments due to rate resets and lower fixed income reinvestment rates.

The decrease in net investment income yield attributable to the Closed Block Business for 2009 compared to 2008 was primarily due to the impact of lower interest rates on floating rate investments due to rate resets, higher losses from investments in joint ventures and limited partnerships, driven by depreciation and losses on the underlying assets, and lower income from short-term investments as a result of lower short-term rates.

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The following tables set forth the income yield and investment income, excluding realized investment gains (losses) and non-hedge accounting derivative results, for each major investment category of the Financial Services Businesses general account, excluding the Japanese operations portion of the general account which is presented separately below, for the periods indicated.

	Year Ended December 31,					
	2010		2009		2008	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)					
Fixed maturities	5.58%	$ 4,194	5.74%	$ 4,172	6.06%	$ 4,348
Trading account assets supporting insurance liabilities	4.73	724	5.38	721	5.61	726
Equity securities	9.29	168	9.84	167	7.73	150
Commercial mortgage and other loans	6.32	1,081	6.04	1,070	6.22	1,097
Policy loans	5.72	171	5.94	162	5.87	158
Short-term investments and cash equivalents	0.33	32	0.50	55	2.89	283
Other investments	3.21	61	0.39	9	0.03	1
Gross investment income before investment expenses	5.22	6,431	5.27	6,356	5.75	6,763
Investment expenses	(0.11)	(96)	(0.14)	(110)	(0.13)	(188)
Investment income after investment expenses	5.11%	6,335	5.13%	6,246	5.62%	6,575
Investment results of other entities and operations(2)		219		118		207
Total investment income		$ 6,554		$ 6,364		$ 6,782

(1) Yields are based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on cost. Yields for fixed maturities and short-term investments and cash equivalents are calculated net of liabilities and rebate expenses corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets. Prior periods yields are presented on a basis consistent with the current period presentation.
(2) Includes investment income of securities brokerage, securities trading, banking operations, real estate and relocation services, and asset management operations.

The decrease in net investment income yield attributable to the Financial Services Businesses general account excluding the Japanese operations portfolio for 2010 compared to 2009 was primarily due to a decrease in fixed maturity yields as a result of lower interest rates on floating rate investments from rate resets and lower fixed maturity reinvestment rates partially offset by an increase in other investment yields driven by favorable joint venture and limited partnership earnings driven by appreciation on the underlying assets.

The decrease in net investment income yield attributable to the non-Japanese operations portion of the Financial Services Businesses portfolio for 2009 compared to 2008 was primarily due to a decrease in fixed maturity yields as a result of lower interest rates on floating rate investments from rate resets and a shift in asset mix stemming from enterprise risk constraints. Short-term yields also decreased as a result of lower short-term rates.

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The following tables set forth the income yield and investment income, excluding realized investment gains (losses) and non-hedge accounting derivative results, for each major investment category of our Japanese operations general account for the periods indicated.

	Year Ended December 31,					
	2010		2009		2008	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	2.81%	$ 1,733	2.88%	$ 1,519	2.95%	$ 1,314
Trading account assets supporting insurance liabilities	1.98	26	1.97	22	2.10	23
Equity securities	2.84	44	3.13	58	2.91	73
Commercial mortgage and other loans	4.63	175	4.85	167	4.76	144
Policy loans	3.85	72	3.91	63	3.92	50
Short-term investments and cash equivalents	0.24	4	0.62	11	2.26	21
Other investments	6.01	132	6.27	129	8.77	139
Gross investment income before investment expenses	2.97	2,186	3.05	1,969	3.21	1,764
Investment expenses	(0.15)	(112)	(0.16)	(108)	(0.19)	(107)
Total investment income	2.82%	$ 2,074	2.89%	$ 1,861	3.02%	$ 1,657

(1) Yields are based on quarterly average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on cost. Yields for fixed maturities and short-term investments and cash equivalents are calculated net of liabilities and rebate expenses corresponding to securities lending activity. Yields exclude investment income on assets other than those included in invested assets. Prior periods yields are presented on a basis consistent with the current period presentation.

The decrease in yield on the Japanese insurance portfolio for 2010 compared to 2009 is primarily attributable to lower fixed maturity reinvestment rates and a lower short-term interest rate environment both in the U.S. and Japan, as well less favorable results in joint ventures and limited partnerships.

The decrease in yield on the Japanese insurance portfolio for 2009 compared to 2008 is primarily attributable to lower fixed maturity reinvestment rates, including the reinvestment of proceeds realized from certain capital actions and a lower short-term interest rate environment both in the U.S. and Japan.

The U.S. dollar denominated fixed maturities that are not hedged to yen through third party derivative contracts provide a yield that is substantially higher than the yield on comparable Japanese fixed maturities. The average value of U.S. dollar denominated fixed maturities that are not hedged to yen through third party derivative contracts for the years ended December 31, 2010, and 2009, was approximately $12.3 billion and $10.4 billion, respectively, based on amortized cost. For additional information regarding U.S. dollar investments held in our Japanese insurance operations see, Results of Operations for Financial Services Businesses by Segment International Insurance and Investments Division.

Fixed Maturity Securities

Investment Mix

Our fixed maturity securities portfolio consists of publicly-traded and privately-placed debt securities across an array of industry categories. The fixed maturity securities relating to our international insurance operations are primarily comprised of foreign government securities.

We manage our public portfolio to a risk profile directed or overseen by the Asset Liability Management and Risk Management groups and to a profile that also reflects the local market environments impacting both our domestic and international insurance portfolios. The investment objectives for fixed maturity securities are consistent with those described above. The total return that we earn on the portfolio will be reflected both as investment income and also as realized gains or losses on investments.

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We use our private placement and asset-backed portfolios to enhance the diversification and yield of our overall fixed maturity portfolio. Within our domestic portfolios, we maintain a private fixed income portfolio that is larger than the industry average as a percentage of total fixed income holdings. Over the last several years, our investment staff has originated the majority of our annual private placement originations through direct borrower relationships. Our origination capability offers the opportunity to lead transactions and gives us the opportunity for better terms, including covenants and call protection, and to take advantage of innovative deal structures.

As of December 31, 2010, our consolidated direct exposure to the sovereign and local government debt of Portugal, Ireland, Italy, Greece and Spain was in aggregate approximately $423 million, based on amortized cost, substantially all within the Financial Services Businesses and primarily representing Italian government securities owned by Prudential s Italian insurance operations.

As of December 31, 2010, our consolidated direct investment exposure in Turkey, United Arab Emirates, Israel, Saudi Arabia, Bahrain, Qatar, Kuwait, and Tunisia was in aggregate approximately $450 million, based on amortized cost, primarily within the Financial Services Businesses, and included approximately $120 million representing investment exposure in Israel. We had no direct investment exposure in Egypt as of December 31, 2010.

Fixed Maturity Securities by Contractual Maturity Date

The following table sets forth the breakdown of the amortized cost of our fixed maturity securities portfolio in total by contractual maturity as of December 31, 2010.

	December 31, 2010			
	Financial Services Businesses		Closed Block Business	
	Amortized Cost	% of Total	Amortized Cost	% of Total
	($ in millions)			
Corporate & government securities:				
Maturing in 2011	$ 4,601	3.1%	$ 1,871	4.3%
Maturing in 2012	5,448	3.7	1,949	4.5
Maturing in 2013	7,530	5.1	2,375	5.5
Maturing in 2014	8,018	5.4	1,733	4.0
Maturing in 2015	7,099	4.8	1,809	4.1
Maturing in 2016	5,956	4.0	1,524	3.5
Maturing in 2017	6,754	4.6	1,625	3.7
Maturing in 2018	5,982	4.1	1,915	4.4
Maturing in 2019	5,429	3.7	1,726	4.0
Maturing in 2020	5,157	3.5	1,696	3.9
Maturing in 2021	3,146	2.1	21	0.1
Maturing in 2022 and beyond	57,880	39.3	14,766	33.9
Total corporate & government securities	123,000	83.4	33,010	75.9
Asset-backed securities	8,790	6.0	4,570	10.5
Commercial mortgage-backed securities	8,142	5.5	3,615	8.3
Residential mortgage-backed securities	7,504	5.1	2,311	5.3
Total fixed maturities	$ 147,436	100.0%	$ 43,506	100.0%

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Fixed Maturity Securities and Unrealized Gains and Losses by Industry Category

The following table sets forth the composition of the portion of our fixed maturity securities portfolio by industry category attributable to the Financial Services Businesses as of the dates indicated and the associated gross unrealized gains and losses.

Fixed Maturity Securities Financial Services Businesses

	December 31, 2010				December 31, 2009			
Industry(1)	Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value	Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value
	(in millions)							
Corporate securities:								
Manufacturing	$ 21,590	$ 1,538	$ 539	$ 22,589	$ 19,959	$ 1,007	$ 669	$ 20,297
Utilities	11,153	851	179	11,825	10,778	604	246	11,136
Finance	11,213	385	331	11,267	10,500	236	542	10,194
Services	10,170	612	333	10,449	8,841	380	459	8,762
Energy	5,356	364	168	5,552	4,749	263	186	4,826
Retail and Wholesale	4,110	214	138	4,186	3,405	144	144	3,405
Transportation	3,625	240	62	3,803	3,479	168	82	3,565
Other	1,359	62	62	1,359	959	16	77	898
Total corporate securities(3)	68,576	4,266	1,812	71,030	62,670	2,818	2,405	63,083
Foreign government(3)(4)	48,016	2,915	86	50,845	40,885	1,525	133	42,277
Residential mortgage-backed	7,504	397	51	7,850	9,547	345	88	9,804
Asset-backed securities(5)	8,790	168	969	7,989	8,855	119	1,444	7,530
Commercial mortgage-backed	8,142	592	63	8,671	7,747	251	170	7,828
U.S. Government	4,807	464	67	5,204	4,389	313	122	4,580
State & Municipal(6)	1,601	24	52	1,573	799	16	27	788
Total(7)(8)	$ 147,436	$ 8,826	$ 3,100	$ 153,162	$ 134,892	$ 5,387	$ 4,389	$ 135,890

(1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.
(2) Includes $320 million of gross unrealized gains and $68 million of gross unrealized losses as of December 31, 2010, compared to $211 million of gross unrealized gains and $133 million of gross unrealized losses as of December 31, 2009 on securities classified as held to maturity.
(3) Includes reclassifications of prior period amounts to conform to current period presentation.
(4) As of December 31, 2010 and 2009, based on amortized cost, 83% and 84%, respectively, represent Japanese government bonds held by our Japanese insurance operations, with no other individual country representing more than 8% of the balance.
(5) Includes securities collateralized by sub-prime mortgages. See Asset-Backed Securities below.
(6) Includes securities related to the Build America Bonds program.
(7) Excluded from the above are securities held outside the general account in other entities and operations. For additional information regarding investments held outside the general account, see Invested Assets of Other Entities and Operations below.
(8) The table above excludes fixed maturity securities classified as trading. See Trading Account Assets Supporting Insurance Liabilities and Other Trading Account Assets for additional information.

The change in unrealized gains and losses from December 31, 2009 to December 31, 2010, was primarily due to a net decrease in interest rates, mainly the result of risk free rates.

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The following table sets forth the composition of the portion of our fixed maturity securities portfolio by industry category attributable to the Closed Block Business as of the dates indicated and the associated gross unrealized gains and losses.

Fixed Maturity Securities Closed Block Business

Industry(1)	December 31, 2010 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	December 31, 2009 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
				(in millions)				
Corporate securities:								
Manufacturing	$ 7,940	$ 754	$ 66	$ 8,628	$ 8,191	$ 500	$ 142	$ 8,549
Utilities	5,566	510	42	6,034	5,773	358	78	6,053
Services	4,562	377	35	4,904	4,346	241	97	4,490
Finance	2,723	125	53	2,795	3,354	91	59	3,386
Energy	1,887	184	6	2,065	1,926	132	17	2,041
Retail and Wholesale	1,641	166	21	1,786	1,621	123	22	1,722
Transportation	1,349	102	19	1,432	1,430	74	42	1,462
Other	29	2	0	31	0	0	0	0
Total corporate securities	25,697	2,220	242	27,675	26,641	1,519	457	27,703
Asset-backed securities(2)	4,570	60	701	3,929	4,602	36	1,048	3,590
Commercial mortgage-backed	3,615	170	6	3,779	3,662	47	47	3,662
U.S. Government	6,066	197	228	6,035	3,821	71	247	3,645
Residential mortgage-backed	2,311	129	15	2,425	2,571	117	40	2,648
Foreign government(3)	596	90	9	677	637	69	9	697
State & Municipal	651	19	13	657	590	12	16	586
Total(4)	$ 43,506	$ 2,885	$ 1,214	$ 45,177	$ 42,524	$ 1,871	$ 1,864	$ 42,531

(1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.
(2) Includes securities collateralized by sub-prime mortgages. See Asset-Backed Securities below.
(3) As of both December 31, 2010 and 2009, based on amortized cost, no individual foreign country represented more than 8% of the balance.
(4) The table above excludes fixed maturity securities classified as trading. See Other Trading Account Assets for additional information.

The change in unrealized gains and losses from December 31, 2009 to December 31, 2010, was primarily due to a net decrease in interest rates, mainly the result of risk free rates.

Asset-Backed Securities

Included within asset-backed securities attributable to the Financial Services Businesses are securities collateralized by sub-prime mortgages. While there is no market standard definition, we define sub-prime mortgages as residential mortgages that are originated to weaker quality obligors as indicated by weaker credit scores, as well as mortgages with higher loan-to-value ratios, or limited documentation. The significant deterioration of the U.S. housing market, high interest rate resets, higher unemployment levels, and relaxed underwriting standards for some originators of sub-prime mortgages have led to higher delinquency rates, particularly for those mortgages issued in 2006 and 2007. Recently there has been significant attention given to potential deficiencies in lenders foreclosure documentation, causing delays in the foreclosure process. Many lenders have indicated that the issues are administrative and they do not expect significant delays in their foreclosure proceedings.

From the perspective of an investor in securities backed by sub-prime collateral, any significant delays in foreclosure proceedings could result in increased servicing costs which could negatively impact the value of the impacted securities. Separately, as an investor in sub-prime securities, we are evaluating our legal options with respect to potential remedies arising from any potential deficiencies related to the original lending and securitization practices. The following tables set forth the amortized cost and fair value of our asset-backed securities attributable to the Financial Services Businesses as of the dates indicated, by credit quality, and for asset-backed securities collateralized by sub-prime mortgages, by year of issuance (vintage).

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Asset-Backed Securities at Amortized Cost Financial Services Businesses

	December 31, 2010						
	Lowest Rating Agency Rating						Total
Vintage	AAA	AA	A	BBB	BB and below	Total Amortized Cost	December 31, 2009
	(in millions)						
Collateralized by sub-prime mortgages:							
Enhanced short-term portfolio(1):							
2010 2008	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
2007	1	10	3	6	318	338	418
2006	3	23	14	38	346	424	790
2005	0	4	0	0	5	9	16
2004 & Prior	0	0	0	0	0	0	0
Total enhanced short-term portfolio	4	37	17	44	669	771	1,224
All other portfolios:							
2010 2008	0	0	0	0	0	0	0
2007	3	3	1	0	259	266	291
2006	10	77	35	20	924	1,066	1,254
2005	1	28	29	34	344	436	489
2004 & Prior	35	171	137	147	395	885	1,012
Total all other portfolios	49	279	202	201	1,922	2,653	3,046
Total collateralized by sub-prime mortgages(2)	53	316	219	245	2,591	3,424	4,270
Other asset-backed securities:							
Externally managed investments in the European market	0	0	0	527	61	588	510
Collateralized by auto loans	910	5	0	16	0	931	578
Collateralized by credit cards	578	0	8	425	3	1,014	1,153
Collateralized by non-sub-prime mortgages	1,232	81	9	33	18	1,373	1,301
Other asset-backed securities(3)	319	757	124	71	189	1,460	1,043
Total asset-backed securities(4)	$ 3,092	$ 1,159	$ 360	$ 1,317	$ 2,862	$ 8,790	$ 8,855

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Asset-Backed Securities at Fair Value Financial Services Businesses

Vintage	December 31, 2010 Lowest Rating Agency Rating AAA	AA	A	BBB (in millions)	BB and below	Total Fair Value	Total December 31, 2009
Collateralized by sub-prime mortgages:							
Enhanced short-term portfolio(1):							
2010 2008	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
2007	1	10	3	6	235	255	300
2006	3	23	13	37	284	360	655
2005	0	4	0	0	4	8	15
2004 & Prior	0	0	0	0	0	0	0
Total enhanced short-term portfolio	4	37	16	43	523	623	970
All other portfolios:							
2010 2008	0	0	0	0	0	0	0
2007	3	3	0	0	152	158	182
2006	7	66	24	19	648	764	838
2005	2	25	26	25	260	338	297
2004 & Prior	31	143	112	116	269	671	693
Total all other portfolios	43	237	162	160	1,329	1,931	2,010
Total collateralized by sub-prime mortgages	47	274	178	203	1,852	2,554	2,980
Other asset-backed securities:							
Externally-managed investments in the European market	0	0	0	554	65	619	530
Collateralized by auto loans	912	5	0	16	0	933	580
Collateralized by credit cards	615	0	7	414	3	1,039	1,161
Collateralized by non-sub-prime mortgages	1,283	82	9	31	16	1,421	1,307
Other asset-backed securities(3)	320	741	123	70	169	1,423	972
Total asset-backed securities(4)	$ 3,177	$ 1,102	$ 317	$ 1,288	$ 2,105	$ 7,989	$ 7,530

(1) Our enhanced short-term portfolio is used primarily to invest cash proceeds of securities lending and repurchase activities, commercial paper issuances and cash generated from certain trading and operating activities. The investment policy statement of this portfolio requires that securities purchased for this portfolio have a remaining expected average life of 2 years or less when acquired.
(2) Included within the $3.4 billion of asset-backed securities collateralized by sub-prime mortgages as of December 31, 2010 are $266 million of securities collateralized by second-lien exposures.
(3) As of December 31, 2010, includes collateralized debt obligations with amortized cost of $81 million and fair value of $87 million, with none secured by sub-prime mortgages. Also includes asset-backed securities collateralized by education loans, equipment leases, franchises, timeshares, and aircraft.
(4) Excluded from the tables above are asset-backed securities held outside the general account in other entities and operations. For additional information regarding asset-backed securities held outside the general account, see Invested Assets of Other Entities and Operations below. Also excluded from the table above are asset-backed securities classified as trading and carried at fair value. See Trading Account Assets Supporting Insurance Liabilities and Other Trading Account Assets for additional information regarding these securities.

The tables above provide ratings as assigned by nationally recognized rating agencies as of December 31, 2010, including Standard & Poor s, Moody s and Fitch. In making our investment decisions, rather than relying solely on the rating agencies evaluations, we assign internal ratings to our asset-backed securities based upon our dedicated asset-backed securities unit s independent evaluation of the underlying collateral and securitization structure, including any guarantees from monoline bond insurers.

On an amortized cost basis, asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses decreased from $4.270 billion as of December 31, 2009, to $3.424 billion as of December 31, 2010, primarily reflecting principal paydowns and other-than-temporary impairments recognized. Gross unrealized losses related to our asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses were $882 million as of December 31, 2010, and $1.293 billion as of December 31, 2009. For additional information regarding other-than-temporary impairments of asset-backed securities collateralized by sub-prime mortgages see Realized Investment Gains and Losses above. For information regarding the methodology used in determining the fair value of our asset-backed securities collateralized by sub-prime mortgages, see Note 20 to the Consolidated Financial Statements.

The weighted average estimated subordination percentage of our asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses, excluding those supported by guarantees from monoline bond insurers, was 29% as of December 31, 2010. The subordination percentage represents the current weighted average estimated percentage of the capital structure subordinated to our investment holding that is available to absorb losses before the security incurs the first dollar loss of principal. As of December 31, 2010, based on amortized cost, approximately 64% of the asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses have estimated credit subordination percentages of 20% or more, and 41% have estimated credit subordination percentages of 30% or more.

In addition to subordination, certain securities, referred to as front pay or second pay securities, benefit from the prioritization of principal cash flows within the senior tranches of the structure. In most instances, these shorter duration senior securities have priority to principal cash flows over other securities in the structure, including longer duration senior securities. Included within the $3.424 billion of asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses as of December 31, 2010 were $767 million of securities, on an amortized cost basis, that represent front pay or second pay securities, depending on the overall structure of the securities.

Included within asset-backed securities attributable to the Closed Block Business are securities collateralized by sub-prime mortgages, as defined above. The following tables set forth the amortized cost and fair value of our asset-backed securities attributable to the Closed Block Business as of the dates indicated, by credit quality, and for asset-backed securities collateralized by sub-prime mortgages, by year of issuance (vintage).

Asset-Backed Securities at Amortized Cost Closed Block Business

	December 31, 2010						
	Lowest Rating Agency Rating						
Vintage	**AAA**	**AA**	**A**	**BBB**	**BB and below**	**Total Amortized Cost**	**Total December 31, 2009**
				(in millions)			
Collateralized by sub-prime mortgages:							
Enhanced short-term portfolio(1):							
2010 2008	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
2007	4	10	3	6	235	258	303
2006	3	27	15	44	301	390	672
2005	2	5	0	0	5	12	17
2004 & Prior	0	0	0	0	0	0	0
Total enhanced short-term portfolio	9	42	18	50	541	660	992
All other portfolios:							
2010 2008	0	0	0	0	0	0	0
2007	5	0	20	7	224	256	307
2006	96	0	1	0	771	868	1,043
2005	11	103	57	15	157	343	380
2004 & Prior	21	218	36	64	291	630	713
Total all other portfolios	133	321	114	86	1,443	2,097	2,443

Total collateralized by sub-prime mortgages(2)	142	363	132	136	1,984	2,757	3,435
Other asset-backed securities:							
Collateralized by credit cards	344	0	37	259	2	642	549
Collateralized by auto loans	396	0	0	0	0	396	123
Externally managed investments in the European market	0	0	0	212	0	212	198
Collateralized by education loans	181	20	0	0	0	201	101
Other asset-backed securities(3)	124	150	35	3	50	362	196
Total asset-backed securities	$ 1,187	$ 533	$ 204	$ 610	$ 2,036	$ 4,570	$ 4,602

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Asset-Backed Securities at Fair Value Closed Block Business

	December 31, 2010 Lowest Rating Agency Rating						Total December 31, 2009
Vintage	AAA	AA	A	BBB	BB and below	Total Fair Value	
				(in millions)			
Collateralized by sub-prime mortgages:							
Enhanced short-term portfolio(1):							
2010 2008	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
2007	4	10	3	6	179	202	224
2006	3	27	15	42	252	339	565
2005	1	5	0	0	4	10	15
2004 & Prior	0	0	0	0	0	0	0
Total enhanced short-term portfolio	8	42	18	48	435	551	804
All other portfolios:							
2010 2008	0	0	0	0	0	0	0
2007	5	0	14	4	146	169	194
2006	75	0	1	1	508	585	672
2005	11	96	45	13	111	276	255
2004 & Prior	19	182	31	52	225	509	522
Total all other portfolios	110	278	91	70	990	1,539	1,643
Total collateralized by sub-prime mortgages	118	320	109	118	1,425	2,090	2,447
Other asset-backed securities:							
Collateralized by credit cards	355	0	34	258	2	649	538
Collateralized by auto loans	397	0	0	0	0	397	124
Externally managed investments in the European market	0	0	0	243	0	243	218
Collateralized by education loans	182	14	0	0	0	196	94
Other asset-backed securities(3)	125	148	36	3	42	354	169
Total asset-backed securities(4)	$ 1,177	$ 482	$ 179	$ 622	$ 1,469	$ 3,929	$ 3,590

(1) Our enhanced short-term portfolio is used primarily to invest cash proceeds of securities lending and repurchase activities, and cash generated from certain trading and operating activities. The investment policy statement of this portfolio requires that securities purchased for this portfolio have a remaining expected average life of 2 years or less when acquired.
(2) Included within the $2.8 billion of asset-backed securities collateralized by sub-prime mortgages as of December 31, 2010 are $60 million of securities collateralized by second-lien exposures.
(3) As of December 31, 2010, includes collateralized debt obligations with amortized cost of $34 million and fair value of $33 million, with none secured by sub-prime mortgages. Also includes asset-backed securities collateralized by franchises, timeshares, manufacturing and aircraft.
(4) Excluded from the table above are asset-backed securities classified as trading and carried at fair value. For additional information see Other Trading Account Assets.

On an amortized cost basis, asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business decreased from $3.435 billion as of December 31, 2009 to $2.757 billion as of December 31, 2010, primarily reflecting principal paydowns and other-than-temporary impairments recognized. Gross unrealized losses related to our asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business were $673 million as of December 31, 2010 and $988 million as of December 31, 2009. For additional information regarding other-than-temporary impairments of asset-backed securities collateralized by sub-prime mortgages see Realized Investment Gains and Losses above. For information regarding the methodology used in determining the fair value of our asset-backed securities collateralized by sub-prime mortgages, see Note 20 to the Consolidated Financial Statements.

The weighted average estimated subordination percentage of asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business, excluding those supported by guarantees from monoline bond insurers, was 31% as of December 31, 2010. The subordination percentage represents the current weighted average estimated percentage of the capital structure subordinated to our investment holding that is available to absorb losses before the security incurs the first dollar loss of principal. As of December 31, 2010,

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based on amortized cost, approximately 70% of the asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business have estimated credit subordination percentages of 20% or more, and 43% have estimated credit subordination percentages of 30% or more.

In addition to subordination, certain securities, referred to as front pay or second pay securities, benefit from the prioritization of principal cash flows within the senior tranches of the structure. In most instances, these shorter duration senior securities have priority to principal cash flows over other securities in the structure, including longer duration senior securities. Included within the $2.757 billion of asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business as of December 31, 2010, were $763 million of securities, on an amortized cost basis, that represent front pay or second pay securities, depending on the overall structure of the securities.

Residential Mortgage-Backed Securities

The following table sets forth the amortized cost of our residential mortgage-backed securities attributable to the Financial Services Businesses and Closed Block Business as of December 31, 2010.

Residential Mortgage-Backed Securities at Amortized Cost

	December 31, 2010			
	Financial Services Businesses		Closed Block Business	
	Amortized Cost	% of Total	Amortized Cost	% of Total
	($ in millions)			
By security type:				
Agency pass-through securities(1)	$ 7,442	99.2%	$ 2,055	88.9%
Collateralized mortgage obligations(2)(3)	62	0.8	256	11.1
Total residential mortgage-backed securities	$ 7,504	100.0%	$ 2,311	100.0%
Portion rated Aaa/AAA(4)	$ 7,413	98.8%	$ 2,074	89.7%

	December 31, 2009			
	Financial Services Businesses		Closed Block Business	
	Amortized Cost	% of Total	Amortized Cost	% of Total
	($ in millions)			
By security type:				
Agency pass-through securities(1)	$ 9,475	99.2%	$ 2,266	88.1%
Collateralized mortgage obligations(2)(3)	72	0.8	305	11.9
Total residential mortgage-backed securities	$ 9,547	100.0%	$ 2,571	100.0%
Portion rated Aaa/AAA(4)	$ 9,445	98.9%	$ 2,299	89.4%

(1) As of December 31, 2010, of these securities, for the Financial Services Businesses, $5.954 billion are supported by U.S. government and $1.488 billion are supported by foreign government. As of December 31, 2009, of these securities, for the Financial Services Businesses, $7.865 billion were supported by the U.S. government and $1.610 billion were supported by foreign government. For the Closed Block Business all of these securities are supported by the U.S. government as of December 31, 2010 and 2009.

(2) Includes alternative residential mortgage loans of $46 million and $39 million in the Financial Services Businesses, and $108 million and $125 million in the Closed Block Business, for 2010 and 2009, respectively.

(3) As of December 31, 2010, of these collateralized mortgage obligations, for the Financial Services Businesses, 38% have credit ratings of A or above, 7% have BBB credit ratings and the remaining 55% have below investment grade ratings, and as of December 31, 2009, 43% have credit ratings of A or above, 16% have BBB credit ratings and the remaining 41% have below investment grade ratings. As of December 31, 2010, for the Closed Block Business, 39% have A credit ratings or above, 35% have BBB credit ratings, and 26% have below investment grade ratings, and as of December 31, 2009, 58% have A credit ratings or above, and 42% have below investment grade ratings.

(4) Based on lowest external rating agency rating.

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Commercial Mortgage-Backed Securities

Weakness in commercial real estate fundamentals, along with an overall decrease in liquidity and availability of capital have led to a very difficult refinancing environment and an increase in the overall delinquency rate on commercial mortgages in the commercial mortgage-backed securities market. Despite an otherwise stabilizing economy, job growth, a key factor in driving demand for commercial real estate, remains weak. However, the pace of deterioration has slowed and prices of commercial real estate appear to have bottomed. There were signs of improvement in commercial real estate fundamentals in 2010 such as vacancy rates declining from their peak and positive rent growth. In addition, we have observed several market factors related to commercial mortgage-backed securities issued in 2006 and 2007, including less stringent underwriting, higher levels of leverage and collateral valuations that are generally no longer realizable. To ensure our investment objectives and asset strategies are maintained, we consider these market factors in making our investment decisions on securities in these vintages. The following tables set forth the amortized cost and fair value of our commercial mortgage-backed securities attributable to the Financial Services Businesses as of the dates indicated by credit quality and by year of issuance (vintage).

Commercial Mortgage-Backed Securities at Amortized Cost Financial Services Businesses

	December 31, 2010 Lowest Rating Agency Rating(1)						
Vintage	**AAA**	**AA**	**A**	**BBB**	**BB and below**	**Total Amortized Cost**	**Total December 31, 2009**
				(in millions)			
2010	$ 89	$ 0	$ 0	$ 0	$ 0	$ 89	$ 0
2009	117	0	0	0	0	117	0
2008	182	0	3	16	62	263	331
2007	1,934	0	0	0	36	1,970	1,705
2006	2,956	282	63	0	6	3,307	3,145
2005	1,609	32	0	2	0	1,643	1,560
2004 & Prior	590	106	32	15	10	753	1,006
Total commercial mortgage-backed securities(2)(3)(4)	$ 7,477	$ 420	$ 98	$ 33	$ 114	$ 8,142	$ 7,747

Commercial Mortgage-Backed Securities at Fair Value Financial Services Businesses

	December 31, 2010 Lowest Rating Agency Rating(1)						
Vintage	**AAA**	**AA**	**A**	**BBB**	**BB and below**	**Total Fair Value**	**Total December 31, 2009**
				(in millions)			
2010	$ 90	$ 0	$ 0	$ 0	$ 0	$ 90	$ 0
2009	118	0	0	0	0	118	0
2008	192	0	3	15	52	262	306
2007	2,021	0	0	0	49	2,070	1,729
2006	3,185	309	67	0	6	3,567	3,190
2005	1,748	34	0	2	1	1,785	1,614
2004 & Prior	620	109	31	11	8	779	989
Total commercial mortgage-backed securities(2)(3)(4)	$ 7,974	$ 452	$ 101	$ 28	$ 116	$ 8,671	$ 7,828

(1) The tables above provide ratings as assigned by nationally recognized rating agencies as of December 31, 2010, including Standard & Poor s, Moody s, Fitch and Realpoint.

(2) Excluded from the table above are available for sale commercial mortgage-backed securities held outside the general account in other entities and operations. For additional information regarding commercial mortgage-backed securities held outside the general account, see Invested Assets of Other Entities and Operations below. Also excluded from the table above are commercial mortgage-backed securities classified as trading and carried at fair value. See Trading Account Assets Supporting Insurance Liabilities for additional information regarding these securities.

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(3) Included in the table above as of December 31, 2010 are downgraded super senior securities with amortized cost of $359 million in AA and $63 million in A.
(4) Included in the table above as of December 31, 2010 are agency commercial mortgage-backed securities with amortized cost of $221 million all rated AAA.

Included in the table above are commercial mortgage-backed securities collateralized by Non-U.S. properties all related to Japanese commercial mortgage-backed securities held by our Japanese insurance operations with an amortized cost of $12 million in AAA, $3 million in A, $18 million in BBB and $104 million in BB and below as of December 31, 2010, and $12 million in AAA, $20 million in A, $97 million in BBB and $203 million in BB and below as of December 31, 2009.

The weighted average estimated subordination percentage of our commercial mortgage-backed securities attributable to the Financial Services Businesses was 32% as of December 31, 2010. The subordination percentage represents the current weighted average estimated percentage of the capital structure subordinated to our investment holding that is available to absorb losses before the security incurs the first dollar loss of principal. The weighted average estimated subordination percentage includes an adjustment for that portion of the capital structure, which has been effectively defeased by U.S. Treasury securities. As of December 31, 2010, based on amortized cost, approximately 97% of the commercial mortgage-backed securities attributable to the Financial Services Businesses have estimated credit subordination percentages of 20% or more, and 80% have estimated credit subordination percentages of 30% or more. The following tables set forth the weighted average estimated subordination percentage, adjusted for that portion of the capital structure which has been effectively defeased by U.S. Treasury securities, of our commercial mortgage-backed securities collateralized by U.S. and Non-U.S. properties, attributable to the Financial Services Businesses based on amortized cost as of December 31, 2010, by rating and vintage.

U.S. Commercial Mortgage-Backed Securities Subordination Percentages by Rating and Vintage Financial Services Businesses

	December 31, 2010 Lowest Rating Agency Rating(1)(2)				
Vintage	**AAA**	**AA**	**A**	**BBB**	**BB and below**
2010	0%				
2009	0%				
2008	32%		0%	0%	0%
2007	30%				0%
2006	31%	33%	31%		0%
2005	31%	32%		0%	0%
2004 & Prior	34%	33%	40%	8%	25%

Non- U.S. Commercial Mortgage-Backed Securities Subordination Percentages by Rating and Vintage Financial Services Businesses

	December 31, 2010 Lowest Rating Agency Rating(1)(2)				
Vintage	**AAA**	**AA**	**A**	**BBB**	**BB and below**
2010					
2009					
2008			40%	31%	28%
2007				0%	35%
2006	64%				36%
2005				59%	16%
2004 & Prior					0%

(1)

The tables above provide ratings as assigned by nationally recognized rating agencies as of December 31, 2010, including Standard & Poor s, Moody s, Fitch, and Realpoint.

(2) Excludes agency commercial mortgage-backed securities.

The super senior structure was introduced to the U.S. commercial mortgage-backed securities market in late 2004 and was modified in early 2005 to increase subordination from 20% to 30%. With the changes to the commercial mortgage-backed securities structure in 2005, there became three distinct AAA classes for commercial mortgage-backed securities with fixed rate terms, (1) super senior AAA with 30% subordination, (2) mezzanine AAA with 20% subordination and (3) junior AAA with approximately 14% subordination. The super senior class has priority over the mezzanine and junior classes to all principal cash flows (repayments, prepayments and recoveries on defaulted loans). As a result, all super senior bonds must be completely repaid before the mezzanine or junior bonds receive any principal cash flows. In addition, the super senior bonds will not experience any loss of principal until both the entire mezzanine and junior bonds are written down to zero. We believe the importance of this additional credit enhancement afforded to the super senior class over the mezzanine and junior classes is limited in a benign commercial real estate cycle with low defaults but becomes more significant in a deep commercial real estate downturn under which expected losses increase substantially.

In addition to enhanced subordination, certain securities within the super senior class benefit from the prioritization of principal cash flows. The super senior class is generally structured such that shorter duration time tranches have priority over longer duration time tranches as to all principal cash flows (repayments, prepayments, and recoveries on defaulted loans) until the deal reaches 30% cumulative net loss, at which point all super senior securities are paid pro rata. As a result, short of reaching 30% cumulative net losses, the shorter duration super senior tranches must be completely repaid before the longest duration super senior tranche receives any principal cash flows. We have generally focused our purchases of recent vintage commercial mortgage-backed securities on shorter duration super senior tranches that we believe have sufficient priority to ensure that in most scenarios our positions will be fully repaid prior to the structure reaching the 30% cumulative net loss threshold. The following tables set forth the amortized cost of our AAA commercial mortgage-backed securities attributable to the Financial Services Businesses as of the dates indicated, by type and by year of issuance (vintage).

AAA Rated Commercial Mortgage-Backed Securities Amortized Cost by Type and Vintage Financial Services Businesses

	December 31, 2010							
	Super Senior AAA Structures			Other AAA				
Vintage	Super Senior (shorter duration tranches)	Super Senior (longest duration tranches)	Mezzanine	Junior	Other Senior	Other Subordinate	Other	Total AAA Securities at Amortized Cost
	(in millions)							
2010	$ 0	$ 0	$ 0	$ 0	$ 20	$ 0	$ 0	$ 20
2009	0	0	0	0	0	0	0	0
2008	182	0	0	0	0	0	0	182
2007	1,899	0	0	0	0	0	0	1,899
2006	1,825	1,119	0	0	0	0	12	2,956
2005	625	972	0	0	0	1	11	1,609
2004 & Prior	29	157	0	0	235	164	5	590
Total (1)	$ 4,560	$ 2,248	$ 0	$ 0	$ 255	$ 165	$ 28	$ 7,256

(1) Excludes agency commercial mortgage-backed securities of $221 million.

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The following tables set forth the amortized cost and fair value of our commercial mortgage-backed securities attributable to the Closed Block Business as of the dates indicated, by credit quality and by year of issuance (vintage).

Commercial Mortgage-Backed Securities at Amortized Cost Closed Block Business

	December 31, 2010 Lowest Rating Agency Rating(1)						
Vintage	AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2009
				(in millions)			
2010	$ 5	$ 0	$ 0	$ 0	$ 0	$ 5	$ 0
2009	0	0	0	0	0	0	0
2008	9	0	0	0	0	9	15
2007	701	0	0	0	4	705	435
2006	799	63	11	0	0	873	852
2005	1,197	22	0	0	0	1,219	1,270
2004 & Prior	738	33	29	1	3	804	1,090
Total commercial mortgage-backed securities(2)	$ 3,449	$ 118	$ 40	$ 1	$ 7	$ 3,615	$ 3,662

Commercial Mortgage-Backed Securities at Fair Value Closed Block Business

	December 31, 2010 Lowest Rating Agency Rating(1)						
Vintage	AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2009
				(in millions)			
2010	$ 5	$ 0	$ 0	$ 0	$ 0	$ 5	$ 0
2009	0	0	0	0	0	0	0
2008	10	0	0	0	0	10	15
2007	724	0	0	0	7	731	442
2006	843	68	12	0	0	923	842
2005	1,253	24	0	0	0	1,277	1,274
2004 & Prior	768	32	29	1	3	833	1,089
Total commercial mortgage-backed securities(2)	$ 3,603	$ 124	$ 41	$ 1	$ 10	$ 3,779	$ 3,662

(1) The tables above provide ratings as assigned by nationally recognized rating agencies as of December 31, 2010, including Standard & Poor s, Moody s, Fitch, and Realpoint.
(2) Included in the table above as of December 31, 2010 are downgraded super senior securities with amortized cost of $87 million in AA and $11 million in A.

The weighted average estimated subordination percentage of commercial mortgage-backed securities attributable to the Closed Block Business was 31% as of December 31, 2010. See above for a definition of this percentage. As of December 31, 2010, based on amortized cost, approximately 95% of the commercial mortgage-backed securities attributable to the Closed Block Business have estimated credit subordination percentages of 20% or more, and 62% have estimated credit subordination percentages of 30% or more. The following tables set forth the weighted average estimated subordination percentage, adjusted for that portion of the capital structure which has been effectively defeased by US Treasury securities, of our commercial mortgage-backed securities attributable to the Closed Block Business based on amortized cost as of

December 31, 2010, by rating and vintage.

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Commercial Mortgage-Backed Securities Subordination Percentages by Rating and Vintage Closed Block Business

Vintage	December 31, 2010 Lowest Rating Agency Rating AAA	AA	A	BBB	BB and below
2010					
2009					
2008	31%				
2007	30%				5%
2006	30%	32%	30%		
2005	31%	32%			
2004 & Prior	32%	22%	43%	10%	66%

As discussed above, with the changes to the commercial mortgage-backed securities market in late 2004 and early 2005, there are now three distinct AAA classes for commercial mortgage-backed securities with fixed rate terms, (1) super senior AAA with 30% subordination, (2) mezzanine AAA with 20% subordination and (3) junior AAA with approximately 14% subordination. In addition to the enhanced subordination, certain securities within the super senior class benefit from the prioritization of principal cash flows. The following table sets forth the amortized cost our AAA commercial mortgage-backed securities attributable to the Closed Block Business as of the dates indicated, by type and by year of issuance (vintage).

AAA Rated Commercial Mortgage-Backed Securities Amortized Cost by Type and Vintage Closed Block Business

	December 31, 2010							
	Super Senior AAA Structures			Other AAA				
Vintage	Super Senior (shorter duration tranches)	Super Senior (longest duration tranches)	Mezzanine	Junior	Other Senior	Other Subordinate	Other	Total AAA Securities at Amortized Cost
				(in millions)				
2010	$ 0	$ 0	$ 0	$ 0	$ 5	$ 0	$ 0	$ 5
2009	0	0	0	0	0	0	0	0
2008	9	0	0	0	0	0	0	9
2007	701	0	0	0	0	0	0	701
2006	687	95	0	0	0	0	17	799
2005	972	225	0	0	0	0	0	1,197
2004 & Prior	50	11	0	0	601	75	1	738
Total	$ 2,419	$ 331	$ 0	$ 0	$ 606	$ 75	$ 18	$ 3,449

Fixed Maturity Securities Credit Quality

The Securities Valuation Office, or SVO, of the NAIC, evaluates the investments of insurers for statutory reporting purposes and assigns fixed maturity securities to one of six categories called NAIC Designations. In general, NAIC designations of 1 highest quality, or 2 high quality, include fixed maturities considered investment grade, which include securities rated Baa3 or higher by Moody s or BBB- or higher by Standard & Poor s. NAIC Designations of 3 through 6 generally include fixed maturities referred to as below investment grade, which include securities rated Ba1 or lower by Moody s and BB+ or lower by Standard & Poor s. However, in the fourth quarter of 2009 the NAIC adopted rules which changed the methodology for determining the NAIC Designations for non-agency residential mortgage-backed securities, including our asset-backed securities collateralized by sub-prime mortgages. Under the new rules, rather than being based on the rating of a third party rating agency, as of December 31, 2009 the NAIC Designations for such securities are based on security level expected losses as modeled by an independent third party (engaged by the NAIC) and the statutory carrying value of the security, including any purchase discounts or impairment charges previously recognized. The modeled results used in determining NAIC designations as of December 31, 2009, were updated and utilized for reporting as of December 31, 2010. In the fourth quarter of 2010, the NAIC adopted rules which changed the methodology for determining the NAIC designations for commercial mortgage-backed securities, similar to what was done in the fourth quarter of 2009 for residential mortgage-backed securities.

As a result of time lags between the funding of investments, the finalization of legal documents and the completion of the SVO filing process, the fixed maturity portfolio generally includes securities that have not yet been rated by the SVO as of each balance sheet date. Pending receipt of SVO ratings, the categorization of these securities by NAIC designation is based on the expected ratings indicated by internal analysis.

Investments of our international insurance companies are not subject to NAIC guidelines. Investments of our Japanese insurance operations are regulated locally by the Financial Services Agency, an agency of the Japanese government. The Financial Services Agency has its own investment quality criteria and risk control standards. Our Japanese insurance companies comply with the Financial Services Agency s credit quality review and risk monitoring guidelines. The credit quality ratings of the investments of our Japanese insurance companies are based on ratings assigned by nationally recognized credit rating agencies, including Moody s, Standard & Poor s, or rating equivalents based on ratings assigned by Japanese credit ratings agencies.

The amortized cost of our public and private fixed maturities attributable to the Financial Services Businesses considered other than high or highest quality based on NAIC or equivalent rating totaled $8.7 billion, or 6%, of the total fixed maturities as of December 31, 2010 and $9.6 billion, or 7%, of the total fixed maturities as of December 31, 2009. Fixed maturities considered other than high or highest quality based on NAIC or equivalent rating represented 27% and 29% of the gross unrealized losses attributable to the Financial Services Businesses as of December 31, 2010 and 2009, respectively. As of December 31, 2010, the amortized cost of our public and private below investment grade fixed maturities attributable to the Financial Services Businesses, based on the lowest of external rating agency ratings, totaled $10.0 billion, or 7%, of the total fixed maturities, and include securities considered high or highest quality by the NAIC based on the new rules for residential mortgage-backed securities described above.

The amortized cost of our public and private fixed maturities attributable to the Closed Block Business considered other than high or highest quality based on NAIC or equivalent rating totaled $5.6 billion, or 13%, of the total fixed maturities as of December 31, 2010 and $6.7 billion, or 16%, of the total fixed maturities as of December 31, 2009. Fixed maturities considered other than high or highest quality based on NAIC or equivalent rating represented 44% of the gross unrealized losses attributable to the Closed Block Business as of December 31, 2010, compared to 41% of gross unrealized losses as of December 31, 2009. As of December 31, 2010, the amortized cost of our public and private below investment grade fixed maturities attributable to the Closed Block Business, based on the lowest of external rating agency ratings, totaled $6.6 billion, or 15%, of the total fixed maturities, and include securities considered high or highest quality by the NAIC based on the new rules for residential mortgage-backed securities described above.

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Public Fixed Maturities Credit Quality

The following table sets forth our public fixed maturity portfolios by NAIC designation attributable to the Financial Services Businesses as of the dates indicated.

Public Fixed Maturity Securities Financial Services Businesses

(1) (2)	December 31, 2010				December 31, 2009			
NAIC Designation	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value
	(in millions)							
1	$ 105,068	$ 6,278	$ 1,240	$ 110,106	$ 94,368	$ 3,767	$ 1,845	$ 96,290
2	14,129	892	585	14,436	14,682	699	790	14,591
Subtotal High or Highest Quality Securities	119,197	7,170	1,825	124,542	109,050	4,466	2,635	110,881
3	2,753	100	208	2,645	2,743	44	314	2,473
4	1,067	24	206	885	1,657	22	345	1,334
5	630	21	211	440	685	19	202	502
6	271	28	89	210	197	25	69	153
Subtotal Other Securities(4)	4,721	173	714	4,180	5,282	110	930	4,462
Total Public Fixed Maturities	$ 123,918	$ 7,343	$ 2,539	$ 128,722	$ 114,332	$ 4,576	$ 3,565	$ 115,343

(1) Reflects equivalent ratings for investments of the international insurance operations.
(2) Includes, as of December 31, 2010 and 2009, 17 securities with amortized cost of $11 million (fair value, $20 million) and 19 securities with amortized cost of $177 million (fair value, $175 million), respectively, that have been categorized based on expected NAIC designations pending receipt of SVO ratings.
(3) Includes $272 million of gross unrealized gains and $67 million gross unrealized losses as of December 31, 2010, compared to $195 million of gross unrealized gains and $129 million of gross unrealized losses as of December 31, 2009 on securities classified as held-to-maturity.
(4) On amortized cost basis, as of December 31, 2010 includes $137 million in emerging markets securities and $112 million in securitized bank loans.

The following table sets forth our public fixed maturity portfolios by NAIC designation attributable to the Closed Block Business as of the dates indicated.

Public Fixed Maturity Securities Closed Block Business

(1)	December 31, 2010				December 31, 2009			
NAIC Designation	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
1	$ 21,965	$ 1,075	$ 551	$ 22,489	$ 20,374	$ 656	$ 853	$ 20,177
2	4,842	423	88	5,177	5,732	308	187	5,853

Subtotal High or Highest Quality Securities	26,807	1,498	639	27,666	26,106	964	1,040	26,030
3	1,547	73	77	1,543	1,903	56	133	1,826
4	1,031	27	201	857	1,552	20	334	1,238
5	527	17	176	368	460	19	125	354
6	58	20	13	65	77	22	10	89
Subtotal Other Securities(2)	3,163	137	467	2,833	3,992	117	602	3,507
Total Public Fixed Maturities	$ 29,970	$ 1,635	$ 1,106	$ 30,499	$ 30,098	$ 1,081	$ 1,642	$ 29,537

(1) Includes, as of December 31, 2010 and 2009, 15 securities with amortized cost of $9 million (fair value, $10 million) and 20 securities with amortized cost of $13 million (fair value, $8 million), respectively, that have been categorized based on expected NAIC designations pending receipt of SVO ratings.

(2) On an amortized cost basis, as of December 31, 2010, includes $446 million in securitized bank loans and $224 million in emerging markets securities.

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Private Fixed Maturities Credit Quality

The following table sets forth our private fixed maturity portfolios by NAIC designation attributable to the Financial Services Businesses as of the dates indicated.

Private Fixed Maturity Securities Financial Services Businesses

(1)(2)	December 31, 2010				December 31, 2009			
NAIC Designation	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value
	(in millions)							
1	$ 6,226	$ 511	$ 90	$ 6,647	$ 5,795	$ 259	$ 121	$ 5,933
2	13,264	792	341	13,715	10,485	452	379	10,558
Subtotal High or Highest Quality Securities	19,490	1,303	431	20,362	16,280	711	500	16,491
3	2,467	104	63	2,508	2,292	52	131	2,213
4	948	26	44	930	1,193	18	118	1,093
5	518	21	17	522	482	6	36	452
6	95	29	6	118	313	24	39	298
Subtotal Other Securities(4)	4,028	180	130	4,078	4,280	100	324	4,056
Total Private Fixed Maturities	$ 23,518	$ 1,483	$ 561	$ 24,440	$ 20,560	$ 811	$ 824	$ 20,547

(1) Reflects equivalent ratings for investments of the international insurance operations.
(2) Includes, as of December 31, 2010 and 2009, 160 securities with amortized cost of $1,776 million (fair value, $1,800 million) and 138 securities with amortized cost of $1,117 million (fair value, $1,124 million), respectively, that have been categorized based on expected NAIC designations pending receipt of SVO ratings.
(3) Includes $47 million of gross unrealized gains and $1 million of gross unrealized losses as of December 31, 2010, compared to $16 million of gross unrealized gains and $4 million of gross unrealized losses as of December 31, 2009 on securities classified as held to maturity.
(4) On an amortized cost basis, as December 31, 2010 includes $591 million in securitized bank loans and $215 million in commercial asset finance securities.

The following table sets forth our private fixed maturity portfolios by NAIC designation attributable to the Closed Block Business as of the dates indicated.

Private Fixed Maturity Securities Closed Block Business

(1)	December 31, 2010				December 31, 2009			
NAIC Designation	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
1	$ 3,702	$ 447	$ 11	$ 4,138	$ 3,091	$ 247	$ 13	$ 3,325
2	7,386	711	35	8,062	6,632	467	41	7,058

Subtotal High or Highest Quality Securities	11,088	1,158	46	12,200	9,723	714	54	10,383
3	1,292	67	21	1,338	1,354	55	72	1,337
4	803	12	23	792	923	12	65	870
5	307	6	16	297	269	4	14	259
6	46	7	2	51	157	5	17	145
Subtotal Other Securities(2)	2,448	92	62	2,478	2,703	76	168	2,611
Total Private Fixed Maturities	$ 13,536	$ 1,250	$ 108	$ 14,678	$ 12,426	$ 790	$ 222	$ 12,994

(1) Includes, as of December 31, 2010 and 2009, 103 securities with amortized cost of $1,523 million (fair value, $1,506 million) and 85 securities with amortized cost of $1,358 million (fair value, $1,375 million), respectively, that have been categorized based on expected NAIC designations pending receipt of SVO ratings.

(2) On an amortized cost basis, as of December 31, 2010, includes $389 million in securitized bank loans and $289 million in commercial asset finance securities.

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Corporate Securities Credit Quality

The following table sets forth both our public and private corporate securities by NAIC designation attributable to the Financial Services Businesses as of the dates indicated.

Corporate Securities Financial Services Businesses

(1)	December 31, 2010				December 31, 2009			
NAIC Designation	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
				(in millions)				
1	$ 36,486	$ 2,413	$ 645	$ 38,254	$ 32,244	$ 1,564	$ 812	$ 32,996
2	25,678	1,598	844	26,432	23,122	1,091	985	23,228
Subtotal High or Highest Quality Securities	62,164	4,011	1,489	64,686	55,366	2,655	1,797	56,224
3	4,253	150	191	4,212	4,351	77	308	4,120
4	1,483	33	99	1,417	2,025	37	198	1,864
5	546	33	22	557	611	24	47	588
6	130	39	11	158	317	25	55	287
Subtotal Other Securities	6,412	255	323	6,344	7,304	163	608	6,859
Total Corporate Fixed Maturities(2)	$ 68,576	$ 4,266	$ 1,812	$ 71,030	$ 62,670	$ 2,818	$ 2,405	$ 63,083

(1) Reflects equivalent ratings for investments of the international insurance operations.
(2) Includes reclassifications of prior period amounts to conform to current period presentations.

The following table sets forth our corporate securities by NAIC designation attributable to the Closed Block Business as of the dates indicated.

Corporate Securities Closed Block Business

	December 31, 2010				December 31, 2009			
NAIC Designation	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
				(in millions)				
1	$ 10,064	$ 951	$ 65	$ 10,950	$ 10,252	$ 606	$ 77	$ 10,781
2	11,505	1,080	65	12,520	11,431	751	122	12,060
Subtotal High or Highest Quality Securities	21,569	2,031	130	23,470	21,683	1,357	199	22,841
3	2,309	115	31	2,393	2,720	87	108	2,699
4	1,320	35	55	1,300	1,627	29	102	1,554
5	422	19	22	419	415	22	26	411
6	77	20	4	93	196	24	22	198

Subtotal Other Securities	4,128	189	112	4,205	4,958	162	258	4,862
Total Corporate Fixed Maturities	$ 25,697	$ 2,220	$ 242	$ 27,675	$ 26,641	$ 1,519	$ 457	$ 27,703

Credit Derivative Exposure to Public Fixed Maturities

In addition to the credit exposure from public fixed maturities noted above, we sell credit derivatives to enhance the return on our investment portfolio by creating credit exposure similar to an investment in public fixed maturity cash instruments.

In a credit derivative, we sell credit protection on an identified name, or a basket of names in a first-to-default structure, and in return receive a quarterly premium. With single name credit default derivatives, this premium or credit spread generally corresponds to the difference between the yield on the referenced name s public fixed maturity cash instruments and swap rates, at the time the agreement is executed. With first-to-default baskets, because of the additional credit risk inherent in a basket of named credits, the premium generally corresponds to a high proportion of the sum of the credit spreads of the names in the basket. If there is an event of default by the referenced name or one of the referenced names in a basket, as defined by the agreement, then we are obligated to pay the counterparty the referenced amount of the contract and receive in return the referenced defaulted security or similar security. Subsequent defaults on the remaining names within such instruments require no further payment to counterparties.

The referenced names in the credit derivatives where we have sold credit protection, as well as all the counterparties to these agreements, are investment grade credit quality and our credit derivatives generally have maturities of five years or less. Credit derivative contracts are recorded at fair value with changes in fair value, including the premium received, recorded in Realized investment gains (losses), net. The premium received for the credit derivatives we sell attributable to the Financial Services Businesses was $7 million and $10 million for the years ended December 31, 2010 and 2009, respectively, and is included in adjusted operating income as an adjustment to Realized investment gains (losses), net.

The following tables set forth our exposure where we have sold credit protection through credit derivatives in the Financial Services Businesses by NAIC rating of the underlying credits as of the dates indicated.

Credit Derivatives, Sold Protection Financial Services Businesses

	December 31, 2010					
	Single Name		First to Default Basket(1)		Total	
NAIC Designation	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
	(in millions)					
1	$ 290	$ 3	$ 0	$ 0	$ 290	$ 3
2	25	0	0	0	25	0
Subtotal	315	3	0	0	315	3
3	0	0	0	0	0	0
4	0	0	0	0	0	0
5	0	0	0	0	0	0
6	0	0	0	0	0	0
Subtotal	0	0	0	0	0	0
Total(2)	$ 315	$ 3	$ 0	$ 0	$ 315	$ 3

Credit Derivatives, Sold Protection Financial Services Businesses

	December 31, 2009					
	Single Name		First to Default Basket(1)		Total	
NAIC Designation	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
	(in millions)					
1	$ 295	$ 3	$ 140	$ 0	$ 435	$ 3
2	28	0	303	(3)	331	(3)
Subtotal	323	3	443	(3)	766	0
3	0	0	132	(2)	132	(2)

4	0	0	0	0	0	0
5	0	0	50	(1)	50	(1)
6	0	0	0	0	0	0
Subtotal	0	0	182	(3)	182	(3)
Total(2)	$ 323	$ 3	$ 625	$ (6)	$ 948	$ (3)

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

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(2) Excludes a credit derivative related to surplus notes issued by a subsidiary of Prudential Insurance and embedded derivatives contained in certain externally-managed investments in the European market. See Note 21 to the Consolidated Financial Statements for additional information regarding these derivatives.

The following tables set forth our exposure where we have sold credit protection through credit derivatives in the Closed Block Business portfolios by NAIC designation of the underlying credits as of the dates indicated.

Credit Derivatives, Sold Protection Closed Block Business

	December 31, 2010		December 31, 2009	
	Single Name		Single Name	
NAIC Designation	Notional	Fair Value	Notional	Fair Value
	(in millions)			
1	$ 5	$ 0	$ 28	$ 0
2	0	0	0	0
Subtotal	5	0	28	0
3 through 6	0	0	0	0
Total(1)	$ 5	$ 0	$ 28	$ 0

(1) Excludes embedded derivatives contained in certain externally-managed investments in the European market. See Note 21 to the Consolidated Financial Statements for additional information regarding these derivatives.

In addition to selling credit protection, we have purchased credit protection using credit derivatives in order to hedge specific credit exposures in our investment portfolio, including exposures relating to certain guarantees from monoline bond insurers. As of December 31, 2010 and 2009, the Financial Services Businesses had $1.785 billion and $1.852 billion of outstanding notional amounts, reported at fair value as a $2 million asset and a $113 million asset, respectively. As of December 31, 2010 and 2009, the Closed Block Business had $399 million and $461 million of outstanding notional amounts, reported at fair value as a liability of $1 million and an asset of $61 million, respectively. The premium paid for the credit derivatives we purchase attributable to the Financial Services Businesses was $50 million and $52 million for the years ended December 31, 2010 and 2009, respectively, and is included in adjusted operating income as an adjustment to Realized investment gains (losses), net. See Note 21 to the Consolidated Financial Statements for additional information regarding credit derivatives and an overall description of our derivative activities.

Unrealized Losses from Fixed Maturity Securities

The following table sets forth the amortized cost and gross unrealized losses of fixed maturity securities attributable to the Financial Services Businesses where the estimated fair value had declined and remained below amortized cost by 20% or more for the following timeframes:

Unrealized Losses from Fixed Maturity Securities, Greater than 20% Financial Services Businesses

	December 31, 2010		December 31, 2009	
	Amortized Cost(1)	Gross Unrealized Losses(1)	Amortized Cost(1)	Gross Unrealized Losses(1)
	(in millions)			
Less than three months	$ 622	$ 136	$ 1,225	$ 267
Three months or greater but less than six months	751	169	714	175
Six months or greater but less than nine months	1,094	283	201	56
Nine months or greater but less than twelve months	173	52	1,260	431
Greater than twelve months	2,503	908	4,533	1,517
Total	$ 5,143	$ 1,548	$ 7,933	$ 2,446

(1) The aging of amortized cost and gross unrealized losses is determined based upon a count of the number of months the estimated fair value remained below amortized cost by 20% or more, using month-end valuations.

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The gross unrealized losses were primarily concentrated in asset-backed securities as of December 31, 2010 and 2009. Gross unrealized losses attributable to the Financial Services Businesses where the estimated fair value had declined and remained below amortized cost by 20% or more of $1.548 billion as of December 31, 2010, includes $731 million relating to asset-backed securities collateralized by sub-prime mortgages. Gross unrealized losses attributable to the Financial Services Businesses where the estimated fair value had declined and remained below amortized cost by 20% or more as of December 31, 2010, also includes $65 million of gross unrealized losses on securities with amortized cost of $107 million where the estimated fair value had declined and remained below amortized cost by 50% or more, of which, $3 million was included in the less than three months timeframe, $4 million was included in the three months or greater but less than six months timeframe, $2 million was included in the six months or greater but less than nine months timeframe, $20 million was included in the nine months or greater but less than twelve months timeframe, and $36 million was included in the greater than twelve months timeframe. We have not recognized the gross unrealized losses shown in the tables above as other-than-temporary impairments in earnings based on our detailed analysis of the underlying credit and cash flows on each of these securities. The gross unrealized losses are primarily attributable to general credit spread widening in the structured credit marketplace, liquidity discounts, and the impact of changes in foreign currency exchange rates, and we believe the recoverable value of these investments based on the expected future cash flows is greater than or equal to our remaining amortized cost. At December 31, 2010, we do not intend to sell these securities and it is not more likely than not that we will be required to sell these securities before the anticipated recovery of its remaining amortized cost basis. See Other-Than-Temporary Impairments of Fixed Maturity Securities for a discussion of the factors we consider in making these determinations.

The following table sets forth the amortized cost and gross unrealized losses of fixed maturity securities attributable to the Closed Block Business where the estimated fair value had declined and remained below amortized cost by 20% or more for the following timeframes:

Unrealized Losses from Fixed Maturity Securities, Greater than 20% Closed Block Business

	December 31, 2010		December 31, 2009	
	Amortized Cost(1)	Gross Unrealized Losses(1)	Amortized Cost(1)	Gross Unrealized Losses(1)
	(in millions)			
Less than three months	$ 173	$ 37	$ 408	$ 94
Three months or greater but less than six months	149	43	203	52
Six months or greater but less than nine months	70	16	18	7
Nine months or greater but less than twelve months	73	22	859	306
Greater than twelve months	1,518	559	1,827	672
Total	$ 1,983	$ 677	$ 3,315	$ 1,131

(1) The aging of amortized cost and gross unrealized losses is determined based upon a count of the number of months the estimated fair value remained below amortized cost by 20% or more, using month-end valuations.

The gross unrealized losses were primarily concentrated in asset-backed securities as of December 31, 2010, and December 31, 2009. Gross unrealized losses attributable to the Closed Block Business where the estimated fair value had declined and remained below amortized cost by 20% or more of $677 million as of December 31, 2010, includes $561 million relating to asset-backed securities collateralized by sub-prime mortgages. Gross unrealized losses attributable to the Closed Block Business where the estimated fair value had declined and remained below amortized cost by 20% or more as of December 31, 2010, does not include any gross unrealized losses on securities where the estimated fair value had declined and remained below amortized cost by 50% or more. We have not recognized the gross unrealized losses shown in the tables above as other-than-temporary impairments in earnings based on our detailed analysis of the underlying credit and cash flows on each of these securities. The gross unrealized losses are primarily attributable to general credit spread widening in the structured credit marketplace and liquidity discounts, and we believe the recoverable value of these investments based on the expected future cash flows is greater than or equal to our remaining amortized cost. At December 31, 2010, we do not intend to sell these securities and it is not more likely than not that we will be

required to sell these securities before the anticipated recovery of its remaining amortized cost basis. See Other-Than-Temporary Impairments of Fixed Maturity Securities for a discussion of the factors we consider in making these determinations.

Other-Than-Temporary Impairments of Fixed Maturity Securities

We maintain separate monitoring processes for public and private fixed maturities and create watch lists to highlight securities that require special scrutiny and management. Our public fixed maturity asset managers formally review all public fixed maturity holdings on a quarterly basis and more frequently when necessary to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances, and/or company or industry specific concerns.

For private placements, our credit and portfolio management processes help ensure prudent controls over valuation and management. We have separate pricing and authorization processes to establish checks and balances for new investments. We apply consistent standards of credit analysis and due diligence for all transactions, whether they originate through our own in-house origination staff or through agents. Our regional offices closely monitor the portfolios in their regions. We set all valuation standards centrally, and we assess the fair value of all investments quarterly. Our private fixed maturity asset managers formally review all private fixed maturity holdings on a quarterly basis and more frequently when necessary to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances, and/or company or industry specific concerns.

Fixed maturity securities classified as held to maturity are those securities where we have the intent and ability to hold the securities until maturity. These securities are reflected at amortized cost in our consolidated statements of financial position. Other fixed maturity securities are considered available for sale, and, as a result, we record unrealized gains and losses to the extent that amortized cost is different from estimated fair value. All held to maturity securities and all available for sale securities with unrealized losses are subject to our review to identify other-than-temporary impairments in value. In evaluating whether a decline in value is other-than-temporary, we consistently consider several factors including, but not limited to, the following:

- the reasons for the decline in value (credit event, currency or interest rate related, including general credit spread widening);
- the financial condition of and near-term prospects of the issuer; and
- the extent and duration of the decline.

In determining whether a decline in value is other-than-temporary, we place greater emphasis on our analysis of the underlying credit versus the extent and duration of a decline in value. Our credit analysis of an investment includes determining whether the issuer is current on its contractual payments, evaluating whether it is probable that we will be able to collect all amounts due according to the contractual terms of the security, and analyzing our overall ability to recover the amortized cost of the investment. We continue to utilize valuation declines as a potential indicator of credit deterioration, and apply additional levels of scrutiny in our analysis as the severity and duration of the decline increases.

In addition, we recognize an other-than-temporary impairment in earnings for a debt security in an unrealized loss position when (a) we have the intent to sell the debt security or (b) it is more likely than not we will be required to sell the debt security before its anticipated recovery or (c) a foreign currency denominated security with a foreign currency translation loss approaches maturity. For all debt securities in unrealized loss positions that do not meet any of these criteria, we analyze our ability to recover the amortized cost by comparing the net present value of our best estimate of projected future cash flows with the amortized cost of the security. If the net present value is less than the amortized cost of the investment, an other-than-temporary impairment is recorded. The determination of the assumptions used in these projections requires the use of significant management judgment. See Note 2 to the Consolidated Financial Statements for additional information regarding these assumptions and our policies for recognizing other-than-temporary impairments for debt securities.

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Other-than-temporary impairments of general account fixed maturity securities attributable to the Financial Services Businesses that were recognized in earnings were $564 million and $1.162 billion for the years ended December 31, 2010 and 2009, respectively. Included in the other-than-temporary impairments of general account fixed maturities attributable to the Financial Services Businesses for the years ended December 31, 2010 and 2009, were $209 million and $668 million, respectively, of other-than-temporary impairments on asset-backed securities collateralized by sub-prime mortgages.

Other-than-temporary impairments of fixed maturity securities attributable to the Closed Block Business that were recognized in earnings were $168 million and $520 million for the years ended December 31, 2010 and 2009, respectively. Included in the other-than-temporary impairments of fixed maturities attributable to the Closed Block Business for the years ended December 31, 2010 and 2009, were $133 million and $322 million, respectively, of other-than-temporary impairments on asset-backed securities collateralized by sub-prime mortgages. For a further discussion of other-than-temporary impairments, see Realized Investment Gains and Losses above.

Trading account assets supporting insurance liabilities

Certain products included in the Retirement and International Insurance segments, are experience-rated, meaning that we expect the investment results associated with these products will ultimately accrue to contractholders. The investments supporting these experience-rated products, excluding commercial mortgage and other loans, are classified as trading. These trading investments are reflected on the balance sheet as Trading account assets supporting insurance liabilities, at fair value. Realized and unrealized gains and losses for these investments are reported in Asset management fees and other income, and excluded from adjusted operating income. Investment income for these investments is reported in Net investment income, and is included in adjusted operating income. The following table sets forth the composition of this portfolio as of the dates indicated.

	December 31, 2010		December 31, 2009	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Short-term investments and cash equivalents	$ 697	$ 697	$ 725	$ 725
Fixed maturities:				
Corporate securities	9,581	10,118	9,202	9,502
Commercial mortgage-backed securities	2,352	2,407	1,899	1,893
Residential mortgage-backed securities	1,350	1,363	1,434	1,432
Asset-backed securities	1,158	1,030	1,022	857
Foreign government bonds	567	569	508	517
U.S. government authorities and agencies and obligations of U.S. states	467	448	169	159
Total fixed maturities	15,475	15,935	14,234	14,360
Equity securities	1,156	1,139	1,033	935
Total trading account assets supporting insurance liabilities	$ 17,328	$ 17,771	$ 15,992	$ 16,020

As a percentage of amortized cost, 76% and 75% of the portfolio was publicly traded as of December 31, 2010, and December 31, 2009, respectively. As of December 31, 2010 and 2009, 90% and 88%, respectively, of the fixed maturity portfolio was considered high or highest quality based on NAIC or equivalent rating. As of December 31, 2010, $1.188 billion of the residential mortgage-backed securities were publicly traded agency pass-through securities, which are supported by implicit or explicit government guarantees all of which have credit ratings of A or higher. Collateralized mortgage obligations, including approximately $104 million secured by ALT-A mortgages, represented the remaining $162 million of residential mortgage-backed securities, of which 86% have credit ratings of A or better and 14% are BBB and below. For a discussion of changes in the fair value of our trading account assets supporting insurance liabilities see Investment Gains and Losses on Trading Account Assets Supporting Insurance Liabilities and Changes in Experience-Rated Contractholder Liabilities Due to Asset Value

Changes, above.

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The following table sets forth the composition by industry category of the corporate securities included in our trading account assets supporting insurance liabilities portfolio as of the dates indicated.

Corporate Securities by Industry Category Trading Account Assets Supporting Insurance Liabilities

Industry(1)	December 31, 2010 Amortized Cost	December 31, 2010 Fair Value	December 31, 2009 Amortized Cost	December 31, 2009 Fair Value
	(in millions)			
Corporate Securities:				
Manufacturing	$ 3,084	$ 3,306	$ 3,089	$ 3,221
Utilities	1,961	2,076	2,017	2,076
Services	1,700	1,783	1,322	1,364
Finance	1,270	1,290	1,254	1,261
Energy	704	753	705	733
Transportation	467	495	474	488
Retail and Wholesale	378	398	330	348
Other	17	17	11	11
Total Corporate Securities	$ 9,581	$ 10,118	$ 9,202	$ 9,502

(1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.

The following tables set forth our asset-backed securities included in our trading account assets supporting insurance liabilities portfolio as of the dates indicated, by credit quality, and for asset-backed securities collateralized by sub-prime mortgages, by year of issuance (vintage).

Asset-Backed Securities at Amortized Cost Trading Account Assets Supporting Insurance Liabilities

Vintage	December 31, 2010 Lowest Rating Agency Rating AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2009
				(in millions)			
Collateralized by sub-prime mortgages:							
2010 2008	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
2007	0	0	0	0	124	124	127
2006	0	0	0	3	98	101	131
2005	0	0	0	0	50	50	60
2004 & Prior	3	14	5	12	37	71	79
Total collateralized by sub-prime mortgages	3	14	5	15	309	346	397
Other asset-backed securities:							
Collateralized by auto loans	35	1	0	0	0	36	136
Collateralized by credit cards	360	0	0	83	0	443	388
Other asset-backed securities	134	135	31	22	11	333	101

Total asset-backed securities	$ 532	$ 150	$ 36	$ 120	$ 320	$ 1,158	$ 1,022

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Asset-Backed Securities at Fair Value Trading Account Assets Supporting Insurance Liabilities

Vintage	December 31, 2010 Lowest Rating Agency Rating AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2009
				(in millions)			
Collateralized by sub-prime mortgages:							
2010 2008	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
2007	0	0	0	0	56	56	65
2006	0	0	0	3	62	65	82
2005	0	0	0	0	36	36	42
2004 & Prior	2	12	4	10	23	51	51
Total collateralized by sub-prime mortgages(1)	2	12	4	13	177	208	240
Other asset-backed securities:							
Collateralized by auto loans	35	1	0	0	0	36	137
Collateralized by credit cards	377	0	0	83	0	460	397
Other asset-backed securities(2)	136	133	32	18	7	326	83
Total asset-backed securities	$ 550	$ 146	$ 36	$ 114	$ 184	$ 1,030	$ 857

(1) Included within the $208 million of asset-backed securities collateralized by sub-prime mortgages at fair value as of December 31, 2010 are $3 million of securities collateralized by second-lien exposures at fair value.

(2) As of December 31, 2010, includes collateralized debt obligations with fair value of $23 million, none of which are secured by sub-prime mortgages. Also includes asset-backed securities collateralized by timeshares, franchises, education loans, and equipment leases.

The following tables set forth our commercial mortgage-backed securities included in our trading account assets supporting insurance liabilities portfolio as of the dates indicated, by credit quality and by year of issuance (vintage).

Commercial Mortgage-Backed Securities at Amortized Cost Trading Account Assets Supporting Insurance Liabilities

Vintage	December 31, 2010 Lowest Rating Agency Rating AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2009
				(in millions)			
2010	$ 65	$ 0	$ 0	$ 0	$ 0	$ 65	$ 0
2009	32	0	0	0	0	32	0
2008	30	0	0	0	0	30	0
2007	128	0	0	0	0	128	46
2006	599	52	0	0	0	651	197
2005	1,015	9	0	0	0	1,024	850
2004 & Prior	350	17	28	17	10	422	806
Total commercial mortgage-backed securities(1)	$ 2,219	$ 78	$ 28	$ 17	$ 10	$ 2,352	$ 1,899

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Commercial Mortgage-Backed Securities at Fair Value Trading Account Assets Supporting Insurance Liabilities

Vintage	December 31, 2010 Lowest Rating Agency Rating AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2009
	(in millions)						
2010	$ 64	$ 0	$ 0	$ 0	$ 0	$ 64	$ 0
2009	31	0	0	0	0	31	0
2008	31	0	0	0	0	31	0
2007	130	0	0	0	0	130	43
2006	618	52	0	0	0	670	200
2005	1,050	11	0	0	0	1,061	856
2004 & Prior	357	17	27	12	7	420	794
Total commercial mortgage-backed securities	$ 2,281	$ 80	$ 27	$ 12	$ 7	$ 2,407	$ 1,893

(1) Included in the table above as of December 31, 2010 are downgraded super senior securities with amortized cost of $62 million in AA.

The following table sets forth our public fixed maturities included in our trading account assets supporting insurance liabilities portfolio by NAIC designation as of the dates indicated.

Public Fixed Maturity Securities Trading Account Assets Supporting Insurance Liabilities

(1)(2) NAIC Designation	December 31, 2010 Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value	December 31, 2009 Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value
				(in millions)				
1	$ 7,836	$ 313	$ 93	$ 8,056	$ 6,986	$ 193	$ 91	$ 7,088
2	2,768	160	44	2,884	2,349	118	30	2,437
Subtotal High or Highest Quality Securities	10,604	473	137	10,940	9,335	311	121	9,525
3	329	12	30	311	422	7	45	384
4	178	3	35	146	272	3	41	234
5	77	1	30	48	93	0	33	60
6	67	0	41	26	76	2	51	27
Subtotal Other Securities	651	16	136	531	863	12	170	705
Total Public Fixed Maturities	$ 11,255	$ 489	$ 273	$ 11,471	$ 10,198	$ 323	$ 291	$ 10,230

(1) See Fixed Maturity Securities Credit Quality above for a discussion on NAIC designations.
(2) Reflects equivalent ratings for investments of the international insurance operations that are not rated by U.S. insurance regulatory authorities.
(3) Amounts are reported in Asset management fees and other income.

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The following table sets forth our private fixed maturities included in our trading account assets supporting insurance liabilities portfolio by NAIC designation as of the dates indicated.

Private Fixed Maturity Securities Trading Account Assets Supporting Insurance Liabilities

(1)(2) NAIC Designation	December 31, 2010 Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value	December 31, 2009 Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value
				(in millions)				
1	$ 805	$ 66	$ 11	$ 860	$ 833	$ 32	$ 12	$ 853
2	2,584	187	10	2,761	2,379	116	18	2,477
Subtotal High or Highest Quality Securities	3,389	253	21	3,621	3,212	148	30	3,330
3	656	27	6	677	592	11	18	585
4	98	4	5	97	153	4	11	146
5	54	1	4	51	54	1	4	51
6	23	1	6	18	25	0	7	18
Subtotal Other Securities	831	33	21	843	824	16	40	800
Total Private Fixed Maturities	$ 4,220	$ 286	$ 42	$ 4,464	$ 4,036	$ 164	$ 70	$ 4,130

(1) See Fixed Maturity Securities Credit Quality above for a discussion on NAIC designations.
(2) Reflects equivalent ratings for investments of the international insurance operations that are not rated by U.S. insurance regulatory authorities.
(3) Amounts are reported in Asset management fees and other income.

Other Trading Account Assets

Other trading account assets, at fair value consist primarily of certain financial instruments that contain an embedded derivative where we elected to classify the entire instrument as a trading account asset rather than bifurcate. These instruments are carried at fair value, with realized and unrealized gains and losses reported in Asset management fees and other income, and excluded from adjusted operating income. Interest and dividend income from these investments is reported in Net investment income, and is included in adjusted operating income. The following table sets forth the composition of our other trading account assets as of the dates indicated.

	December 31, 2010				December 31, 2009			
	Financial Services Businesses		Closed Block Business		Financial Services Businesses		Closed Block Business	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
				(in millions)				
Short-term investments and cash equivalents	$ 3	$ 3	$ 0	$ 0	$ 5	$ 5	$ 0	$ 0
Fixed maturities:								
Corporate securities	161	150	110	118	191	192	110	122
Commercial mortgage-backed	143	103	0	0	238	136	0	0
Residential mortgage-backed	301	181	0	0	287	158	0	0
Asset-backed securities	636	589	36	37	965	913	40	40
Foreign government	25	25	0	0	24	24	0	0

U.S. government	0	0	0	0	12	12	0	0
Total fixed maturities	1,266	1,048	146	155	1,717	1,435	150	162
Equity securities	157	156	1	1	148	157	4	5
Other	12	13	0	0	17	19	0	0
Total other trading account assets	$ 1,438	$ 1,220	$ 147	$ 156	$ 1,887	$ 1,616	$ 154	$ 167

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As of December 31, 2010, on an amortized cost basis 83% of asset-backed securities classified as Other trading account assets attributable to the Financial Services Businesses have credit ratings of A or above, 11% have BBB and the remaining 6% have BB and below credit ratings. As of December 31, 2010, on an amortized cost basis 44% of asset-backed securities classified as Other trading account assets attributable to the Closed Block Business have credit ratings of A or above and the remaining 56% have BBB credit ratings.

Commercial Mortgage and Other Loans

Investment Mix

As of December 31, 2010 and 2009, we held approximately 10% and 12%, respectively, of our general account investments in commercial mortgage and other loans. This percentage is net of a $435 million and $534 million allowance for losses as of December 31, 2010 and 2009, respectively. The following table sets forth the composition of our commercial mortgage and other loans portfolio, before the allowance for losses, as of the dates indicated.

	December 31, 2010		December 31, 2009	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Commercial and agricultural mortgage loans	$ 19,796	$ 8,608	$ 19,322	$ 8,486
Uncollateralized loans	1,467	0	1,349	0
Residential property loans	891	1	909	1
Other collateralized loans	80	0	111	0
Total commercial mortgage and other loans(1)	$ 22,234	$ 8,609	$ 21,691	$ 8,487

(1) Excluded from the table above are commercial mortgage loans held outside the general account in other entities and operations. For additional information regarding commercial mortgage loans held outside the general account, see Invested Assets of Other Entities and Operations below.

We originate commercial and agricultural mortgage loans using a dedicated investment staff and a network of independent companies through our various regional offices. All loans are underwritten consistently to our standards using a proprietary quality rating system that has been developed from our experience in real estate and mortgage lending.

Uncollateralized loans primarily represent reverse dual currency loans and corporate loans which do not meet the definition of a security under authoritative accounting guidance.

Residential property loans primarily include Japanese recourse loans. Upon default of these recourse loans we can make a claim against the personal assets of the property owner, in addition to the mortgaged property. In addition, these loans are backed by third party guarantors.

Other collateralized loans attributable to the Financial Services Businesses include $75 million and $93 million of collateralized consumer loans and $4 million and $17 million of loans collateralized by aviation assets as of December 31, 2010 and 2009, respectively.

Composition of Commercial and Agricultural Mortgage Loans

The flow of capital to commercial real estate has improved dramatically during 2010 as the adverse market and economic conditions that began in the second half of 2007 have improved. Portfolio lenders are actively originating loans on the highest quality properties in primary markets, resulting in an increase in the liquidity and availability of capital in the commercial mortgage loan market. In addition, the commercial banks are selectively more active and there has been an emergence of new loan origination activity by a handful of securitization lenders. These conditions have led to greater competition for portfolio lenders such as our general account, resulting in a tightening on loan pricing, though underwriting remains conservative. While there is still weakness in commercial real estate fundamentals, delinquency rates on our commercial mortgage loans remain low and

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relatively stable. For certain property types, the market fundamentals are beginning to stabilize, though other property types will lag in terms of rising vacancies or falling rents. For additional information see Realized Investment Gains and Losses.

Our commercial and agricultural mortgage loan portfolio strategy emphasizes diversification by property type and geographic location. The following tables set forth the breakdown of the gross carrying values of our general account investments in commercial and agricultural mortgage loans by geographic region and property type as of the dates indicated.

	December 31, 2010				December 31, 2009			
	Financial Services Businesses		Closed Block Business		Financial Services Businesses		Closed Block Business	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)							
Commercial and agricultural mortgage loans by region:								
U.S. Regions:								
Pacific	$ 5,845	29.5%	$ 2,861	33.2%	$ 5,744	29.7%	$ 2,834	33.4%
South Atlantic	4,612	23.3	1,739	20.2	4,530	23.4	1,687	19.9
Middle Atlantic	3,122	15.8	1,959	22.8	2,909	15.1	1,837	21.6
East North Central	1,607	8.1	356	4.1	1,649	8.5	448	5.3
West South Central	1,541	7.8	676	7.9	1,370	7.1	653	7.7
Mountain	1,081	5.5	358	4.2	1,070	5.6	398	4.7
New England	623	3.1	269	3.1	775	4.0	214	2.5
West North Central	516	2.6	183	2.1	563	2.9	196	2.3
East South Central	317	1.6	156	1.8	367	1.9	163	1.9
Subtotal U.S.	19,264	97.3	8,557	99.4	18,977	98.2	8,430	99.3
Asia	224	1.1	0	0.0	11	0.1	0	0.0
Other	308	1.6	51	0.6	334	1.7	56	0.7
Total commercial and agricultural mortgage loans	$ 19,796	100.0%	$ 8,608	100.0%	$ 19,322	100.0%	$ 8,486	100.0%

	December 31, 2010				December 31, 2009			
	Financial Services Businesses		Closed Block Business		Financial Services Businesses		Closed Block Business	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)							
Commercial and agricultural mortgage loans by property type:								
Industrial buildings	$ 4,627	23.4%	$ 1,910	22.2%	$ 4,290	22.2%	$ 1,861	21.9%
Retail stores	4,276	21.6	1,938	22.5	4,123	21.3	1,677	19.8
Office buildings	3,676	18.5	1,900	22.1	4,001	20.7	1,859	21.9
Apartments/Multi-family	3,004	15.2	1,321	15.3	2,881	14.9	1,376	16.2
Other	1,882	9.5	452	5.3	1,809	9.4	550	6.5
Hospitality	1,126	5.7	407	4.7	1,137	5.9	453	5.3
Agricultural properties	1,205	6.1	680	7.9	1,081	5.6	710	8.4
Total commercial and agricultural mortgage loans	$ 19,796	100.0%	$ 8,608	100.0%	$ 19,322	100.0%	$ 8,486	100.0%

Loan-to-value and debt service coverage ratios are measures commonly used to assess the quality of commercial and agricultural mortgage loans. The loan-to-value ratio compares the amount of the loan to the fair value of the underlying property collateralizing the loan, and is commonly expressed as a percentage. Loan-to-value ratios greater than 100% percent indicate that the loan amount is greater than the collateral value. A smaller loan-to-value ratio indicates a greater excess of collateral value over the loan amount. The debt service

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coverage ratio compares a property s net operating income to its debt service payments. Debt service coverage ratios less than 1.0 times indicate that property operations do not generate enough income to cover the loan s current debt payments. A larger debt service coverage ratio indicates a greater excess of net operating income over the debt service payments.

As of December 31, 2010, our general account investments in commercial and agricultural mortgage loans attributable to the Financial Services Businesses had a weighted average debt service coverage ratio of 1.72 times, and a weighted average loan-to-value ratio of 61%. As of December 31, 2010, approximately 96% of commercial and agricultural mortgage loans attributable to the Financial Services Businesses were fixed rate loans. As of December 31, 2010, our general account investments in commercial and agricultural mortgage loans attributable to the Closed Block Business had a weighted average debt service coverage ratio of 1.79 times, and a weighted average loan-to-value ratio of 57%. As of December 31, 2010, approximately 99% of commercial and agricultural mortgage loans attributable to the Closed Block Business were fixed rate loans. For those general account commercial and agricultural mortgage loans attributable to the Financial Services Businesses that were originated in 2010, the weighted average debt service coverage ratio was 2.16 times and the weighted average loan-to-value ratio was 60%.

The values utilized in calculating these loan-to-value ratios are developed as part of our periodic review of the commercial and agricultural mortgage loan portfolio, which includes an internal evaluation of the underlying collateral value. Our periodic review also includes a quality re-rating process, whereby we update the internal quality rating originally assigned at underwriting based on the proprietary quality rating system mentioned above. As discussed below, the internal quality rating is a key input in determining our allowance for loan losses.

For loans with collateral under construction, renovation or lease-up, a stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. Our commercial and agricultural mortgage loan portfolio attributable to the Financial Services Businesses included approximately $0.6 billion of such loans as of December 31, 2010 and $1.1 billion of such loans as of December 31, 2009, and our commercial and agricultural mortgage loan portfolio attributable to the Closed Block Business included approximately $0.2 billion and $0.4 billion of such loans as of December 31, 2010 and 2009, respectively. All else being equal, these loans are inherently more risky than those collateralized by properties that have already stabilized. As of December 31, 2010, there are $14 million of loan-specific reserves related to these loans attributable to the Financial Services Businesses and no reserves attributable to the Closed Block Business. In addition, these unstabilized loans are included in the calculation of our portfolio reserve as discussed below. For information regarding similar loans we hold as part of our commercial and agricultural mortgage operations, see Invested Assets of Other Entities and Operations. The following tables set forth the gross carrying value of our general account investments in commercial and agricultural mortgage loans attributable to the Financial Services Businesses and the Closed Block Business as of the dates indicated by loan-to-value and debt service coverage ratios.

Commercial and Agricultural Mortgage Loans by Loan-to-Value and Debt Service Coverage Ratios Financial Services Businesses

	December 31, 2010 Debt Service Coverage Ratio						
Loan-to-Value Ratio	Greater than 2.0x	1.8x to 2.0x	1.5x to <1.8x	1.2x to <1.5x	1.0x to <1.2x	Less than 1.0x	Total Commercial Mortgage Loans
				(in millions)			
0% 49.99%	$ 3,087	$ 630	$ 1,021	$ 812	$ 277	$ 118	$ 5,945
50% 59.99%	1,040	438	590	409	261	21	2,759
60% 69.99%	883	739	885	1,220	395	122	4,244
70% 79.99%	139	257	933	1,316	686	268	3,599
80% 89.99%	99	0	243	549	449	452	1,792
90% 100%	20	0	0	9	173	401	603
Greater than 100%	16	0	0	109	206	523	854

Total commercial and agricultural mortgage loans	$ 5,284	$ 2,064	$ 3,672	$ 4,424	$ 2,447	$ 1,905	$ 19,796

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Commercial and Agricultural Mortgage Loans by Loan-to-Value and Debt Service Coverage Ratios Closed Block Businesses

	December 31, 2010						
	Debt Service Coverage Ratio						
Loan-to-Value Ratio	Greater than 2.0x	1.8x to 2.0x	1.5x to <1.8x	1.2x to <1.5x	1.0x to <1.2x	Less than 1.0x	Total Commercial Mortgage Loans
				(in millions)			
0% 49.99%	$ 1,612	$ 366	$ 754	$ 420	$ 179	$ 36	$ 3,367
50% 59.99%	317	149	345	194	50	54	1,109
60% 69.99%	306	230	449	565	175	88	1,813
70% 79.99%	105	0	435	546	449	0	1,535
80% 89.99%	34	0	0	263	105	101	503
90% 100%	0	0	0	0	86	37	123
Greater than 100%	0	0	0	30	0	128	158
Total commercial and agricultural mortgage loans	$ 2,374	$ 745	$ 1,983	$ 2,018	$ 1,044	$ 444	$ 8,608

The following table sets forth the breakdown of our commercial and agricultural mortgage loans by year of origination as of December 31, 2010.

	December 31, 2010			
	Financial Services Businesses		Closed Block Business	
Year of Origination	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
		($ in millions)		
2010	$ 3,344	16.9%	$ 1,099	12.8%
2009	1,552	7.8	499	5.8
2008	3,219	16.3	1,169	13.6
2007	4,187	21.2	1,596	18.5
2006	3,076	15.5	1,021	11.9
2005 and prior	4,418	22.3	3,224	37.4
Total commercial and agricultural mortgage loans	$ 19,796	100.0%	$ 8,608	100.0%

Commercial Mortgage and Other Loans by Contractual Maturity Date

The following table sets forth the breakdown of our commercial mortgage and other loan portfolio by contractual maturity as of December 31, 2010.

	December 31, 2010			
	Financial Services Businesses		Closed Block Business	
	Amortized Cost	% of Total	Amortized Cost	% of Total
		($ in millions)		
Vintage				

Maturing in 2011	$ 1,500	6.7%	$ 408	4.7%
Maturing in 2012	2,805	12.6	933	10.8
Maturing in 2013	2,522	11.3	783	9.1
Maturing in 2014	1,412	6.4	930	10.8
Maturing in 2015	2,293	10.3	851	9.9
Maturing in 2016	2,582	11.6	1,003	11.7
Maturing in 2017	2,496	11.2	655	7.6
Maturing in 2018	1,170	5.3	584	6.8
Maturing in 2019	596	2.7	262	3.0
Maturing in 2020	1,549	7.0	856	10.0
Maturing in 2021	671	3.0	494	5.7
Maturing in 2022 and beyond	2,638	11.9	850	9.9
Total commercial mortgage and other loans	$ 22,234	100.0%	$ 8,609	100.0%

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Commercial Mortgage and Other Loan Quality

Ongoing review of the portfolio is performed and loans are placed on watch list status based on a pre-defined set of criteria, where they are assigned to one of the following categories. We place loans on early warning status in cases where, based on our analysis of the loan s collateral, the financial situation of the borrower or tenants or other market factors, we believe a loss of principal or interest could occur. We classify loans as closely monitored when we determine there is a collateral deficiency or other credit events that may lead to a potential loss of principal or interest. Loans not in good standing are those loans where we have concluded that there is a high probability of loss of principal, such as when the loan is in the process of foreclosure or the borrower is in bankruptcy. In our domestic operations, our workout and special servicing professionals manage the loans on the watch list. As described below, in determining our allowance for losses we evaluate each loan on the watch list to determine if it is probable that amounts due according to the contractual terms of the loan agreement will not be collected. In our international portfolios, we monitor delinquency in consumer loans on a pool basis and evaluate any servicing relationship and guarantees the same way we do for commercial mortgage loans.

We establish an allowance for losses to provide for the risk of credit losses inherent in the lending process. The allowance includes loan specific reserves for loans that are determined to be non-performing as a result of our loan review process, and a portfolio reserve for probable incurred but not specifically identified losses for loans which are not on the watch list. We define a non-performing loan as a loan for which we estimate it is probable that amounts due according to the contractual terms of the loan agreement will not be collected. The loan specific portion of the loss allowance is based on our assessment as to ultimate collectability of loan principal and interest. Valuation allowances for a non-performing loan are recorded based on the present value of expected future cash flows discounted at the loan s effective interest rate or based on the fair value of the collateral if the loan is collateral dependent. The portfolio reserve for incurred but not specifically identified losses considers the current credit composition of the portfolio based on the internal quality ratings mentioned above, as well as property type diversification, our past loan experience and other relevant factors. Together with historical credit migration and default statistics, the internal quality ratings are used to determine a default probability by loan. Historical loss severity statistics by property type are then applied to arrive at an estimate for incurred but not specifically identified losses. Historical credit migration, default and loss severity statistics are updated each quarter based on our actual loan experience, and are considered together with other relevant qualitative factors in making the final portfolio reserve calculations. The valuation allowance for commercial mortgage and other loans can increase or decrease from period to period based on these factors. The following tables set forth the aging schedule of our general account investments in commercial mortgage and other loans attributable to the Financial Services Businesses and Closed Block Businesses.

Commercial Mortgage and Other Loans Financial Services Businesses(1)

	December 31, 2010						
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days-Accruing	Greater Than 90 Days-Not Accruing	Total Past Due	Total Commercial Mortgage and Other Loans
				(in millions)			
Commercial mortgage loans:							
Industrial	$ 4,627	$ 0	$ 0	$ 0	$ 0	$ 0	$ 4,627
Retail	4,213	58	0	0	5	63	4,276
Office	3,655	21	0	0	0	21	3,676
Multi-Family/Apartment	3,003	0	0	0	1	1	3,004
Hospitality	1,029	11	10	0	76	97	1,126
Other	1,829	17	0	0	36	53	1,882
Total commercial mortgage loans	18,356	107	10	0	118	235	18,591
Agricultural property loans	1,174	1	0	0	30	31	1,205
Residential property loans	847	20	3	0	21	44	891

Other collateralized loans	78	0	0	0	2	2	80
Uncollateralized loans	1,467	0	0	0	0	0	1,467
Total	$ 21,922	$ 128	$ 13	$ 0	$ 171	$ 312	$ 22,234

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Commercial Mortgage and Other Loans Closed Block Business(1)

	December 31, 2010						
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days-Accruing	Greater Than 90 Days-Not Accruing	Total Past Due	Total Commercial Mortgage and Other Loans
	(in millions)						
Commercial mortgage loans:							
Industrial	$ 1,910	$ 0	$ 0	$ 0	$ 0	$ 0	$ 1,910
Retail	1,934	4	0	0	0	4	1,938
Office	1,900	0	0	0	0	0	1,900
Multi-Family/Apartment	1,321	0	0	0	0	0	1,321
Hospitality	399	0	0	0	8	8	407
Other	436	0	0	0	16	16	452
Total commercial mortgage loans	7,900	4	0	0	24	28	7,928
Agricultural property loans	680	0	0	0	0	0	680
Residential property loans	1	0	0	0	0	0	1
Other collateralized loans	0	0	0	0	0	0	0
Uncollateralized loans	0	0	0	0	0	0	0
Total	$ 8,581	$ 4	$ 0	$ 0	$ 24	$ 28	$ 8,609

Commercial Mortgage and Other Loans Financial Services Businesses and Closed Block Business(1)

	December 31, 2009	
	Financial Services Businesses	Closed Block Business
	(in millions)	
Current	$ 21,385	$ 8,461
Delinquent, not in foreclosure	179	13
Delinquent, in foreclosure	6	3
Restructured	121	10
Total commercial mortgage and other loans	$ 21,691	$ 8,487

(1) December 31, 2010 balances are presented in a format consistent with the new disclosures required under the updated guidance issued by the FASB in 2010 relating to the allowance for credit losses and the credit quality of a company s financing receivable portfolio. December 31, 2009 balances are provided consistent with the prior period s presentation.

The following table sets forth the change in valuation allowances for our commercial mortgage and other loan portfolio as of the dates indicated.

	December 31, 2010	December 31, 2009

	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
		(in millions)		
Allowance, beginning of year	$ 410	$ 124	$ 153	$ 58
Addition to/(release of) allowance for losses	(78)	(22)	335	86
Charge-offs, net of recoveries	(1)	0	(81)	(20)
Change in foreign exchange	2	0	3	0
Allowance, end of period	$ 333	$ 102	$ 410	$ 124

As of December 31, 2010, the $333 million valuation allowance for our commercial mortgage and other loan portfolio attributable to the Financial Services Businesses included $143 million related to loan specific reserves and $190 million related to the portfolio reserve for probable incurred but not specifically identified losses. As of December 31, 2009, the $410 million valuation allowance for our commercial mortgage and other loan portfolio attributable to the Financial Services Businesses included $162 million related to loan specific reserves and $248 million related to the portfolio reserve for probable incurred but not specifically identified losses.

As of December 31, 2010, the $102 million valuation allowance for our commercial mortgage and other loan portfolio attributable to the Closed Block Business included $17 million related to loan specific reserves and $85 million related to the portfolio reserve for probable incurred but not specifically identified losses. As of December 31, 2009, the $124 million valuation allowance for our commercial mortgage and other loan portfolio attributable to the Closed Block Business included $13 million related to loan specific reserves and $111 million related to the portfolio reserve for probable incurred but not specifically identified losses. The decrease in the allowance for both the Financial Services Businesses and the Closed Block Business primarily reflects positive credit migration for certain mortgages.

Equity Securities

Investment Mix

The equity securities attributable to the Financial Services Businesses consist principally of investments in common and preferred stock of publicly-traded companies, as well as mutual fund shares and perpetual preferred securities, as discussed below. The following table sets forth the composition of our equity securities portfolio attributable to the Financial Services Businesses and the associated gross unrealized gains and losses as of the dates indicated.

Equity Securities Financial Services Businesses

	December 31, 2010				December 31, 2009			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Public Equity								
Perpetual preferred stocks(1)	$ 249	$ 19	$ 14	$ 254	$ 398	$ 21	$ 20	$ 399
Non-redeemable preferred stocks	9	4	0	13	10	3	1	12
Mutual fund common stocks(2)	1,592	462	0	2,054	1,394	371	0	1,765
Other common stocks	1,267	112	44	1,335	1,177	45	96	1,126
Total public equity	3,117	597	58	3,656	2,979	440	117	3,302
Private Equity								
Perpetual preferred stocks(1)	449	15	16	448	432	11	39	404
Non-redeemable preferred stocks	15	0	5	10	20	32	0	52
Common stock	12	10	1	21	17	23	0	40
Total private equity(3)	476	25	22	479	469	66	39	496
Total equity	$ 3,593	$ 622	$ 80	$ 4,135	$ 3,448	$ 506	$ 156	$ 3,798

(1) These securities have characteristics of both debt and equity securities.
(2) Includes mutual fund shares representing our interest in the underlying assets of certain of our separate account investments supporting corporate-owned life insurance. These mutual funds invest primarily in high yield bonds.
(3) Hedge funds and other alternative investments are included in Other long-term investments.

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The following table sets forth the composition of our equity securities portfolio attributable to the Closed Block Business and the associated gross unrealized gains and losses as of the dates indicated.

Equity Securities Closed Block Business

	December 31, 2010				December 31, 2009			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Public Equity								
Perpetual preferred stocks(1)	$ 133	$ 11	$ 4	$ 140	$ 161	$ 8	$ 11	$ 158
Non-redeemable preferred stocks	0	0	0	0	1	0	0	1
Common stock	2,725	759	37	3,447	2,476	496	58	2,914
Total public equity	2,858	770	41	3,587	2,638	504	69	3,073
Private Equity								
Perpetual preferred stocks(1)	0	0	0	0	0	0	0	0
Non-redeemable preferred stocks	6	0	0	6	6	0	0	6
Common stock	0	0	0	0	3	3	0	6
Total private equity	6	0	0	6	9	3	0	12
Total equity	$ 2,864	$ 770	$ 41	$ 3,593	$ 2,647	$ 507	$ 69	$ 3,085

(1) These securities have characteristics of both debt and equity securities.

Unrealized Losses from Equity Securities

The following table sets forth the cost and gross unrealized losses of our equity securities attributable to the Financial Services Businesses where the estimated fair value had declined and remained below cost by less than 20% for the following timeframes:

Unrealized Losses from Equity Securities, Less than 20% Financial Services Businesses

	December 31, 2010		December 31, 2009	
	Amortized Cost(1)	Gross Unrealized Losses(1)	Amortized Cost(1)	Gross Unrealized Losses(1)
	(in millions)			
Less than three months	$ 191	$ 2	$ 829	$ 30
Three months or greater but less than six months	226	13	159	18
Six months or greater but less than nine months	269	19	13	1
Nine months or greater but less than twelve months	20	3	56	7
Greater than twelve months	302	18	691	59

Total	$ 1,008	$ 55	$ 1,748	$ 115

(1) The aging of amortized cost and gross unrealized losses is determined based upon a count of the number of months the estimated fair value remained below cost by less than 20%, using month-end valuations.

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The following table sets forth the cost and gross unrealized losses of our equity securities attributable to the Financial Services Businesses where the estimated fair value had declined and remained below cost by 20% or more for the following timeframes:

Unrealized Losses from Equity Securities, Greater than 20%   Financial Services Businesses

	December 31, 2010		December 31, 2009	
	Amortized Cost(1)	Gross Unrealized Losses(1)	Amortized Cost(1)	Gross Unrealized Losses(1)
		(in millions)		
Less than three months	$ 13	$ 4	$ 24	$ 6
Three months or greater but less than six months	24	8	49	13
Six months or greater but less than nine months	2	1	12	4
Nine months or greater but less than twelve months	1	1	21	5
Greater than twelve months(2)	24	11	36	13
Total	$ 64	$ 25	$ 142	$ 41

(1) The aging of amortized cost and gross unrealized losses is determined based upon a count of the number of months the estimated fair value remained below cost by 20% or more, using month-end valuations.
(2) Includes only perpetual preferred securities as of December 31, 2010 and 2009.

The gross unrealized losses as of December 31, 2010, were primarily concentrated in the finance and public utilities sectors compared to December 31, 2009, where the gross unrealized losses were primarily concentrated in the finance, energy, and manufacturing sectors. Gross unrealized losses attributable to the Financial Services Businesses where the estimated fair value had declined and remained below cost by 20% or more of $25 million as of December 31, 2010, does not include any gross unrealized losses on securities where the estimated fair value had declined and remained below cost by 50% or more. Perpetual preferred securities have characteristics of both debt and equity securities. Since we apply to these securities an impairment model similar to our fixed maturity securities, we have not recognized an other-than-temporary impairment on certain of these perpetual preferred securities that have been in a continuous unrealized loss position for twelve months or more as of December 31, 2010. We have not recognized the gross unrealized losses shown in the table above as other-than-temporary impairments. See Other-Than-Temporary Impairments of Equity Securities for a discussion of the factors we consider in making these determinations.

The following table sets forth the cost and gross unrealized losses of our equity securities attributable to the Closed Block Business where the estimated fair value had declined and remained below cost by less than 20% for the following timeframes:

Unrealized Losses from Equity Securities, Less than 20%   Closed Block Business

	December 31, 2010		December 31, 2009	
	Amortized Cost(1)	Gross Unrealized Losses(1)	Amortized Cost(1)	Gross Unrealized Losses(1)
		(in millions)		
Less than three months	$ 2,560	$ 10	$ 2,188	$ 10
Three months or greater but less than six months	76	4	267	23
Six months or greater but less than nine months	107	9	8	0

Nine months or greater but less than twelve months	56	4	16	4
Greater than twelve months	32	4	109	11
Total	$ 2,831	$ 31	$ 2,588	$ 48

(1) The aging of amortized cost and gross unrealized losses is determined based upon a count of the number of months the estimated fair value remained below cost by less than 20%, using month-end valuations.

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The following table sets forth the cost and gross unrealized losses of our equity securities attributable to the Closed Block Business where the estimated fair value had declined and remained below cost by 20% or more for the following timeframes:

Unrealized Losses from Equity Securities, Greater than 20% Closed Block Business

	December 31, 2010		December 31, 2009	
	Amortized Cost(1)	Gross Unrealized Losses(1)	Amortized Cost(1)	Gross Unrealized Losses(1)
	(in millions)			
Less than three months	$ 12	$ 3	$ 29	$ 8
Three months or greater but less than six months	11	3	24	10
Six months or greater but less than nine months	10	4	2	1
Nine months or greater but less than twelve months	0	0	4	2
Greater than twelve months	0	0	0	0
Total	$ 33	$ 10	$ 59	$ 21

(1) The aging of amortized cost and gross unrealized losses is determined based upon a count of the number of months the estimated fair value remained below cost by 20% or more, using month-end valuations.

The gross unrealized losses as of December 31, 2010, were primarily concentrated in the services, manufacturing, and finance sectors compared to December 31, 2009, where the gross unrealized losses were primarily concentrated in the finance, services, and manufacturing sectors. Gross unrealized losses attributable to the Closed Block Business where the estimated fair value had declined and remained below cost by 20% or more of $10 million as of December 31, 2010 does not include any gross unrealized losses on securities where the estimated fair value had declined and remained below cost by 50% or more. Perpetual preferred securities have characteristics of both debt and equity securities. Since we apply to these securities an impairment model similar to our fixed maturity securities, we have not recognized an other-than-temporary impairment on certain of these perpetual preferred securities that have been in a continuous unrealized loss position for twelve months or more as of December 31, 2010. We have not recognized the gross unrealized losses shown in the table above as other-than-temporary impairments. See Other-Than-Temporary Impairments of Equity Securities for a discussion of the factors we consider in making these determinations.

Other-Than-Temporary Impairments of Equity Securities

For those equity securities classified as available for sale we record unrealized gains and losses to the extent cost is different from estimated fair value. All securities with unrealized losses are subject to our review to identify other-than-temporary impairments in value. In evaluating whether a decline in value is other-than-temporary, we consistently consider several factors including, but not limited to, the following:

- the extent and the duration of the decline; including, but not limited to, the following general guidelines:
  - declines in value greater than 20%, maintained for six months or greater;

- declines in value maintained for one year or greater; and

- declines in value greater than 50%;

- the reasons for the decline in value (issuer specific event, currency or market fluctuation);

- our ability and intent to hold the investment for a period of time to allow for a recovery of value, including certain equity securities managed by independent third parties where we do not exercise management discretion concerning individual buy or sell decisions; and

- the financial condition of and near-term prospects of the issuer.

We generally recognize other-than-temporary impairments for securities with declines in value greater than 50% maintained for six months or greater or with any decline in value maintained for one year or greater. In

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addition, in making our determinations we continue to analyze the financial condition and near-term prospects of the issuer, including an assessment of the issuer s capital position, and consider our ability and intent to hold the investment for a period of time to allow for a recovery of value.

For those securities that have declines in value that are deemed to be only temporary, we make an assertion as to our ability and intent to retain the security until recovery. Once identified, these securities are restricted from trading unless authorized based upon events that could not have been foreseen at the time we asserted our ability and intent to retain the security until recovery. Examples of such events include, but are not limited to, the deterioration of the issuer s creditworthiness, a major business combination or disposition, a change in regulatory requirements, certain other portfolio actions or other similar events. For those securities that have declines in value for which we cannot assert our ability and intent to retain until recovery, including certain equity securities managed by independent third parties where we do not exercise management discretion concerning individual buy or sell decisions, impairments are recognized as other-than-temporary regardless of the reason for, or the extent of, the decline. For perpetual preferred securities, which have characteristics of both debt and equity securities, we apply an impairment model similar to our fixed maturity securities, factoring in the position of the security in the capital structure and the lack of a formal maturity date. For additional discussion of our policies regarding other-than-temporary impairments of fixed maturity securities, see Fixed Maturity Securities Other-Than-Temporary Impairments of Fixed Maturity Securities above.

When we determine that there is an other-than-temporary impairment, we record a writedown to estimated fair value, which reduces the cost basis and is included in Realized investment gains (losses), net. See Note 2 to the Consolidated Financial Statements for additional information regarding our policies around other-than-temporary impairments for equity securities. See Note 20 to the Consolidated Financial Statements for information regarding the fair value methodology used for equity securities.

Impairments of equity securities attributable to the Financial Services Businesses were $78 million and $389 million for the years ended December 31, 2010, and 2009, respectively. Impairments of equity securities attributable to the Closed Block Business were $34 million and $613 million for years ended December 31, 2010 and 2009, respectively. For a further discussion of impairments, see Realized Investment Gains and Losses above.

Other Long-Term Investments

Other long-term investments are comprised as follows:

	December 31, 2010		December 31, 2009	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Joint ventures and limited partnerships:				
Real estate related	$ 163	$ 361	$ 331	$ 338
Non-real estate related	1,070	1,162	816	1,049
Real estate held through direct ownership (1)	1,141	1	1,055	0
Other (2)	614	58	609	158
Total other long-term investments	$ 2,988	$ 1,582	$ 2,811	$ 1,545

(1) Primarily includes investment in an office building used by our Japanese insurance operations.
(2) Primarily includes derivatives and member and activity stock held in the Federal Home Loan Bank of New York and Boston. For additional information regarding our holding in the Federal Home Loan Bank of New York and Boston, see Note 14 to the Consolidated Financial Statements.

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Invested Assets of Other Entities and Operations

The following table sets forth the composition of the investments held outside the general account in other entities and operations as of the dates indicated.

	December 31, 2010	December 31, 2009
	(in millions)	
Fixed Maturities:		
Public, available for sale, at fair value	$ 2,046	$ 1,953
Private, available for sale, at fair value	75	49
Other trading account assets, at fair value	2,849	1,250
Equity securities, available for sale, at fair value	13	12
Commercial mortgage and other loans, at book value (1)	1,423	1,740
Other long-term investments	1,601	1,548
Short-term investments	435	1,185
Total investments	$ 8,442	$ 7,737

(1) Book value is generally based on unpaid principal balance net of any allowance for losses, the lower of cost or fair value, or fair value, depending on the loan.

The table above includes the invested assets of our brokerage, trading and banking operations, real estate and relocation services, and asset management operations. Assets of our asset management operations managed for third parties and those assets classified as Separate account assets on our balance sheet are not included.

Fixed Maturity Securities

Fixed maturity securities primarily include investments related to our non-retail banking operations, where customer deposit liabilities are primarily supported by fixed maturity and short-term investments, in addition to cash and cash equivalents.

The following table sets forth the composition of the portion of our fixed maturity securities portfolio by industry category attributable to our other entities and operations.

Fixed Maturity Securities Invested Assets of Other Entities and Operations

	December 31, 2010						
	Lowest Rating Agency Rating					Total	Total
Industry(1)	**AAA**	**AA**	**A**	**BBB**	**BB and below**	**Total Amortized Cost**	**Total Fair Value**
	(in millions)						

Residential Mortgage-Backed	$ 1,029	$ 8	$ 3	$ 0	$ 10	$ 1,050	$ 1,078
Asset-Backed Securities	204	28	2	17	26	277	299
Commercial Mortgage-Backed	149	5	0	0	7	161	167
Corporate Securities	53	66	258	89	23	489	516
U.S. Government	43	0	15	0	0	58	59
State & Municipal	0	0	1	0	0	1	1
Foreign Government	1	0	0	0	0	1	1
Total	$ 1,479	$ 107	$ 279	$ 106	$ 66	$ 2,037	$ 2,121

(1) Investment data has been classified based on standard industry categorizations for domestic public holdings and similar classifications by industry for all other holdings.

The table above includes the invested assets of our brokerage, trading and banking operations, real estate and relocation services, and asset management operations. Assets of our asset management operations managed for third parties and those assets classified as Separate account assets on our balance sheet are not included.

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Other Trading Account Assets

Other trading account assets primarily include trading positions held by our derivatives trading operations and our global commodities group used in a dealer or broker capacity and derivative hedging positions used in a non-broker or non-dealer capacity. The derivative hedging positions used in a non-broker or non-dealer capacity primarily include a portfolio of derivatives primarily intended to hedge the risks related to certain products. Trading positions held by our derivatives trading operations used in a broker or dealer capacity include various foreign exchange instruments and commodities, primarily to facilitate transactions for our clients. We seek to use short security positions, forwards, futures, options and other derivatives to limit exposure to interest rate and other market risks associated with these positions. We also trade derivative financial instruments that allow our clients to manage exposure to interest rate, currency and other market risks. Our derivative transactions involve both exchange-listed and over-the-counter contracts. Our global commodities group provides advice, sales and trading on a global basis covering a wide variety of commodity, financial and foreign exchange futures, swap and forward contracts, including agricultural commodities, base and precious metals, major currencies, interest rate and stock indices. We act both as a broker, buying and selling exchange-listed contracts for our customers, and as a dealer, by entering into futures and security transactions as a principal. Less than $1 million of commercial mortgage-backed securities held outside the general account are classified as other trading account assets as of December 31, 2010 all of which have AAA credit ratings. An additional $34 million of asset-backed securities held outside the general account as of December 31, 2010 are classified as other trading account assets, and all have AAA credit ratings.

Commercial mortgage and other loans

Our asset management operations include our commercial mortgage operations, which provide mortgage origination, asset management and servicing for our general account, institutional clients, and government sponsored entities such as Fannie Mae, the Federal Housing Administration, and Freddie Mac. We also originate shorter-term interim loans for spread lending that are collateralized by assets generally under renovation or lease-up. All else being equal, these interim loans are inherently more risky than those collateralized by properties that have already stabilized. Our interim loans are generally paid off through refinancing or the sale of the underlying collateral by the borrower. As of December 31, 2010 and December 31, 2009, the interim loans had an unpaid principal balance of $1.3 billion and $1.7 billion, respectively, and an allowance for losses or credit related market value losses totaling $168 million and $236 million, respectively. The weighted average loan-to-value ratio was 108% as of December 31, 2010 and 112% as of December 31, 2009, indicating that, in aggregate, the loan amount was greater than the collateral value, and the weighted average debt service coverage ratio was 1.24 times as of December 31, 2010 and 1.16 times as of December 31, 2009. A stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. As of December 31, 2010, we also hold $69 million of commercial real estate held for sale related to foreclosed interim loans. The mortgage loans of our commercial mortgage operations are included in Commercial mortgage and other loans, with related derivatives and other hedging instruments primarily included in Other trading account assets and Other long-term investments.

Other long-term investments

Other long-term investments primarily include proprietary investments made as part of our asset management operations. We make these proprietary investments in real estate, as well as fixed income, public equity and real estate securities, including controlling interests. Certain of these investments are made primarily for purposes of co-investment in our managed funds and structured products. Other proprietary investments are made with the intention to sell or syndicate to investors, including our general account, or for placement in funds and structured products that we offer and manage (seed investments). As part of our asset management operations we also make loans to our managed funds that are secured by equity commitments from investors or assets of the funds.

Commercial Real Estate

As discussed above, we have investment-based exposure to commercial real estate through a variety of investment vehicles. This exposure primarily results from our investments in commercial mortgage-backed securities and our whole-loan commercial mortgage holdings. For additional information regarding our exposure

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to commercial real estate, see the respective investment sections above within General Account Investments. Our invested asset exposure to commercial real estate as of the dates indicated includes the following, shown at their respective balance sheet carrying value:

	December 31, 2010		December 31, 2009	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
General Account				
Commercial Mortgage-Backed Securities, at fair value:				
Fixed Maturity Securities	$ 8,671	$ 3,779	$ 7,828	$ 3,662
Trading Account Assets Supporting Insurance Liabilities	2,407	0	1,893	0
Other Trading Account Assets	103	0	136	0
Commercial and Agricultural Mortgage Loans, at gross carrying value(1)	19,796	8,608	19,322	8,486
Real estate related joint ventures and limited partnerships(2)	163	361	331	338
Real estate held through direct ownership(3)	1,141	1	1,055	0
Other Entities and Operations(4)				
Commercial Mortgage-Backed Securities, at fair value:				
Fixed Maturity Securities	$ 167	$ 0	$ 92	$ 0
Other Trading Account Assets	0	0	0	0
Commercial and Agricultural Mortgage Loans, at gross carrying value(5)	1,420	0	1,739	0
Real estate related joint ventures and limited partnerships(2)	534	0	492	0
Real estate held through direct ownership(3)	517	0	461	0

(1) Carrying value is generally based on unpaid principal balance. Amounts are shown gross of allowance for losses of $283 million and $102 million as of December 31, 2010 and $371 million and $124 million as of December 31, 2009, attributable to the Financial Services Businesses and the Closed Block Business, respectively. Commercial mortgage loans are shown net of the allowance for losses on the statement of financial position.

(2) Balances accounted for under either the cost or equity method and include all real estate related exposures, net of impairments.

(3) Represents wholly-owned investment real estate which we have the intent to hold for the production of income as well as real estate held for sale. Real estate which we have the intent to hold for the production of income is carried at depreciated cost less any writedowns to fair value for impairment. Real estate held for sale is carried at the lower of depreciated cost or fair value less estimated selling costs and is not further depreciated once classified as such.

(4) Includes invested assets of brokerage, trading and banking operations, real estate and relocation services, and asset management operations. Excludes assets of our asset management operations managed for third parties and those assets classified as Separate account assets on our balance sheet.

(5) Carrying value is generally based on unpaid principal balance, the lower of cost or fair value, or fair value. Amounts are shown gross of allowance for losses of $120 million and $147 million as of December 31, 2010 and 2009, respectively. Commercial mortgage loans are shown net of the allowance for losses on the statement of financial position.

Liquidity and Capital Resources

Overview

Liquidity refers to the ability to generate sufficient cash resources to meet the payment obligations of the Company. Capital refers to the long term financial resources available to support the operation of our businesses, fund business growth, and provide a cushion to withstand adverse circumstances. Our ability to generate and maintain sufficient liquidity and capital depends on the profitability of our businesses, general economic conditions and our access to the capital markets and the alternate sources of liquidity and capital described herein.

Management monitors the liquidity of Prudential Financial and its subsidiaries on a daily basis and projects borrowing and capital needs over a multi-year time horizon through our quarterly planning process. We believe that cash flows from the sources of funds presently available to us are sufficient to satisfy the current liquidity requirements of Prudential Financial and its subsidiaries, including reasonably foreseeable contingencies.

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We continue to refine our metrics for capital management. These refinements to the current framework, which is primarily based on statutory risk based capital measures, are designed to more appropriately reflect risks associated with our businesses on a consistent basis across the Company. In addition, we continue to use an economic capital framework for making certain business decisions. Similar to our planning and management process for liquidity, we also use a disciplined framework to ensure the availability of adequate capital under reasonably foreseeable contingencies.

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

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

On February 1, 2011, we completed the acquisition from American International Group, Inc., or AIG, of AIG Star Life Insurance Co., Ltd., AIG Edison Life Insurance Company and certain other AIG subsidiaries pursuant to the stock purchase agreement dated September 30, 2010 with AIG. The total purchase price was approximately $4.8 billion, comprised of approximately $4.2 billion in cash and $0.6 billion in the assumption of third-party debt, substantially all of which is expected to be repaid, over time, with excess capital of the acquired entities.

To partially fund the acquisition purchase price, in November 2010, Prudential Financial completed a public offering and sale of 18,348,624 shares of Common Stock and $1.0 billion of medium-term notes, resulting in aggregate proceeds of approximately $2.0 billion. The remainder of the purchase price was funded with approximately $2.2 billion of cash and short-term investments. In November 2010, the Company also terminated the $3.0 billion term loan bridge facility previously entered into at the time of signing the purchase agreement with AIG. The bridge facility was intended to be available to finance any portion of the acquisition purchase price not otherwise funded with proceeds from capital markets transactions or with other resources.

Prudential Financial

The principal sources of funds available to Prudential Financial, the parent holding company, are dividends, returns of capital and interest income from its subsidiaries, and cash and short-term investments. These sources of funds may be supplemented by Prudential Financial s access to the capital markets and credit facilities, as well as the Alternative Sources of Liquidity described below.

The primary uses of funds at Prudential Financial include servicing our debt and the payment of declared shareholder dividends, operating expenses and capital contributions and obligations to subsidiaries.

As of December 31, 2010, Prudential Financial had cash and short-term investments of $6.672 billion, an increase of $2.842 billion from December 31, 2009. Included in the cash and short-term investments of Prudential Financial is $1.013 billion held in an intercompany liquidity account that is designed to optimize the use of cash by facilitating the lending and borrowing of funds between Prudential Financial and its subsidiaries on a daily basis. Also included are short-term investments of $1.085 billion, consisting primarily of government agency securities and money market funds.

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The following table sets forth Prudential Financial s principal sources and uses of cash and short-term investments for the period indicated.

	Year Ended December 31, 2010 (in millions)
Sources:	
Dividends and/or returns of capital from subsidiaries(1)	$ 3,975
Net proceeds from the issuance of long-term senior debt(2)	3,221
Net proceeds from the issuance of Common Stock	970
Repayment of funding agreements from Prudential Insurance	799
Proceeds from stock-based compensation and exercise of stock options	239
Proceeds from short-term debt, net of repayments	135
Total sources	9,339
Uses:	
Capital contributions to subsidiaries(3)	2,199
Shareholder dividends	575
Repayment of long-term senior debt	25
Repayment of retail medium-term notes	450
Net borrowings by subsidiaries(4)	1,755
Payment of income taxes(5)	812
Other, net	681
Total uses	6,497
Net increase in cash and short-term investments	$ 2,842

(1) Includes dividends and/or returns of capital of $3.0 billion from Prudential Insurance, $470 million from Prudential Annuities Life Assurance Corporation, $205 million from international insurance and investment subsidiaries, $247 million from asset management subsidiaries and $53 million from other subsidiaries.
(2) See Financing Activities.
(3) Includes capital contributions of $851 million to international insurance and investments subsidiaries, $498 million to asset management subsidiaries, $495 million to an investment subsidiary, $256 million to our offshore captive reinsurer, $95 million to an irrevocable trust, commonly referred to as a rabbi trust, which holds assets of the Company to be used to satisfy its obligation with respect to certain non-qualified retirement plans, and $4 million to other subsidiaries.
(4) Includes net borrowings of $859 million by Pruco Reinsurance to support the capital markets hedging program related to our variable annuity products, net borrowings of $400 million and $250 million by Prudential Arizona Reinsurance Term Company and Universal Prudential Arizona Reinsurance Captive Company, respectively, funding statutory reserves required under Regulation XXX and Guideline AXXX, as discussed in more detail in Financing Activities, net borrowings of $245 million by Pruco Life Insurance Company of Arizona to fund deferred acquisition costs on variable annuity products, and net borrowings of $150 million by our asset management subsidiaries. The remainder represents net repayments from other subsidiaries as well as net activity in our intercompany liquidity account described above.
(5) Primarily represents an estimated tax payment to the Internal Revenue Service made March 15, 2010 with an extension request for Prudential Financial and its subsidiaries 2009 consolidated federal income tax return. This payment is driven in part by the gain on the sale of our minority joint venture interest in Wachovia Securities. Prudential Financial has also made estimated tax payments to the Internal Revenue Service for 2010 and settled certain tax liabilities and benefits for 2009 and 2010 pursuant to a tax allocation agreement with its subsidiaries.

On November 9, 2010, Prudential Financial s Board of Directors declared an annual dividend for 2010 of $1.15 per share of Common Stock, representing an increase of approximately 64 percent from the 2009 Common Stock dividend. The table below presents declaration, record, and payment dates, as well as per share and aggregate dividend amounts, for the Common Stock dividend for the last five years.

			Dividend Amount	
Declaration Date	Record Date	Payment Date	Per Share	Aggregate

			(in millions, except per share data)	
November 9, 2010	November 23, 2010	December 17, 2010	$ 1.15	$ 564
November 10, 2009	November 24, 2009	December 18, 2009	$ 0.70	$ 327
November 11, 2008	November 24, 2008	December 19, 2008	$ 0.58	$ 246
November 13, 2007	November 26, 2007	December 21, 2007	$ 1.15	$ 521
November 14, 2006	November 27, 2006	December 21, 2006	$ 0.95	$ 453

The primary components of capitalization for the Financial Services Businesses consist of the equity we attribute to the Financial Services Businesses (excluding accumulated other comprehensive income related to unrealized gains and losses on investments and pension/postretirement benefits), outstanding junior subordinated debt and outstanding capital debt of the Financial Services Businesses. Capital debt consists of borrowings that are used or will be used to meet the capital requirements of Prudential Financial, as well as borrowings invested in equity or debt securities of direct or indirect subsidiaries of Prudential Financial and subsidiary borrowings utilized for capital requirements. As shown in the table below, as of December 31, 2010, the Financial Services Businesses had $38.0 billion in capital, all of which was available to support the aggregate capital requirements of its three divisions and its Corporate and Other operations. Based on our assessments of these businesses and operations, we believe this level of capital was consistent with the AA ratings targets of our regulated operating entities as of December 31, 2010.

	December 31, 2010 (in millions)
Attributed equity (excluding unrealized gains and losses on investments and pension/postretirement benefits)	$ 29,248
Junior subordinated debt (i.e. hybrid securities)	1,519
Capital debt	7,244
Total capital	$ 38,011

We seek to capitalize all of our subsidiaries and businesses in accordance with their ratings targets, and we believe Prudential Financial s capitalization and use of financial leverage are consistent with those ratings targets. Management uses the ratio of capital debt to total capital (as such amounts are reflected in the table above) as a primary measure of the use of financial leverage. As of December 31, 2010, our capital debt to total capital ratio was 22.1%. The terms of our outstanding junior subordinated debt have certain features which result in their treatment as hybrid securities by the rating agencies. As a result, for purposes of calculating the capital debt to total capital ratio, 25% of our outstanding junior subordinated debt is treated as equity and the remaining 75% is treated as capital debt, based on Moody s current criteria for these types of hybrid securities, which is the most restrictive treatment among the rating agencies.

Our long-term senior debt rating targets for Prudential Financial are A for Standard & Poor s Rating Services, or S&P, Moody s Investors Service, Inc., or Moody s, and Fitch Ratings Ltd., or Fitch, and a for A.M. Best Company, or A.M. Best. Our financial strength rating targets for our domestic life insurance companies are AA/Aa/AA for S&P, Moody s and Fitch, respectively, and A+ for A.M. Best. Currently, some of our ratings are below these targets. For a description of material rating actions that have occurred from the beginning of 2010 through the date of this filing and a discussion of the potential impacts of ratings downgrades, see Ratings.

Restrictions on Dividends and Returns of Capital from Subsidiaries

Our insurance and various other companies are subject to regulatory limitations on the payment of dividends and other transfers of funds to affiliates. With respect to Prudential Insurance, New Jersey insurance law provides that, except in the case of extraordinary dividends (as described below), all dividends or other distributions paid by Prudential Insurance may be paid only from unassigned surplus, as determined pursuant to statutory accounting principles, less unrealized investment gains and losses and revaluation of assets as of the prior calendar year-end. As of December 31, 2010 and 2009, Prudential Insurance s unassigned surplus was $4.224 billion and $5.295 billion, respectively, and it recorded applicable adjustments for cumulative unrealized investment gains of $1,499 million and $925 million, respectively. Prudential Insurance must give prior notification to the New Jersey Department of Banking and Insurance, or NJDOBI, or the Department, of its intent to pay any dividend or distribution. Also, if any dividend, together with other dividends or distributions made within the preceding twelve months, exceeds the greater of (i) 10% of the prior calendar year s statutory surplus or (ii) the prior calendar year s statutory net gain from operations excluding realized investment gains and losses, the dividend is considered to be an extraordinary dividend and the prior approval of the Department is required for payment of the dividend. Prudential Insurance s statutory surplus as of December 31, 2010 was $8.364 billion and its statutory net gain from operations, excluding realized investment gains and losses, for the year ended December 31, 2010 was $1.127 billion. In addition to the regulatory limitations, the terms of the IHC debt

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contain restrictions potentially limiting dividends by Prudential Insurance applicable to the Financial Services Businesses in the event the Closed Block Business is in financial distress and under certain other circumstances. The laws regulating dividends of the other states and foreign jurisdictions where our other insurance companies are domiciled are similar, but not identical, to New Jersey s.

On May 14, 2010, Prudential Insurance paid an ordinary dividend of $2.4 billion, and on November 23, 2010, it paid an extraordinary dividend of $600 million. Also in 2010, Prudential Annuities Life Assurance Corporation paid an ordinary dividend of $330 million and an extraordinary dividend of $140 million. These dividends were ultimately received by Prudential Financial.

As a result of Gibraltar Life s reorganization, in addition to regulatory restrictions, there are certain other restrictions that preclude Gibraltar Life from paying dividends to Prudential Financial in the near term. We anticipate that it will be several years before these restrictions will allow Gibraltar Life to pay dividends. In 2010, The Prudential Life Insurance Company, Ltd., or Prudential of Japan, for which the payment of dividends is subject to regulatory limitations pursuant to statutory accounting principles, paid a dividend of ¥9 billion, or approximately $110 million, to Prudential Holdings of Japan, Inc., some of which was used to fund a portion of the purchase price for the acquisition of the Star and Edison Businesses. The ability of our asset management subsidiaries and the majority of our other operating subsidiaries to pay dividends is largely unrestricted from a regulatory standpoint. The ability of each of our subsidiaries to pay dividends in 2011 depends on market conditions and other factors.

See Liquidity and Capital Resources of Subsidiaries below for additional details on the liquidity of our domestic insurance subsidiaries, international insurance subsidiaries and asset management subsidiaries.

Alternative Sources of Liquidity

Prudential Financial maintains an intercompany liquidity account that is designed to optimize the use of cash by facilitating the lending and borrowing of funds between the parent holding company and its affiliates on a daily basis. Depending on the overall availability of cash, the parent holding company invests excess cash on a short-term basis or borrows funds in the capital markets. Additional longer term liquidity is available through inter-affiliate borrowing arrangements. Prudential Financial and certain of its subsidiaries also have access to bank facilities, as discussed under Credit Facilities, as well as the alternative sources of liquidity described below.

Commercial Paper Programs

Prudential Financial has a commercial paper program, the authorized capacity of which was reduced from $5.0 billion to $3.0 billion as of June 30, 2010. Prudential Financial commercial paper borrowings generally have been used to fund the working capital needs of Prudential Financial s subsidiaries and to provide short-term liquidity at Prudential Financial. As of December 31, 2010, Prudential Financial s outstanding commercial paper borrowings were $283 million, representing an increase of $137 million from December 31, 2009. As of December 31, 2010, the weighted average maturity of Prudential Financial s outstanding commercial paper was 43 days, of which 15% was overnight. The daily average commercial paper outstanding during 2010 under this program was $222 million. The weighted average interest rate on these borrowings was 0.42% and 1.61% for the years ended December 31, 2010 and 2009, respectively.

Prudential Funding, LLC, or Prudential Funding, a wholly-owned subsidiary of Prudential Insurance, has a commercial paper program, the authorized capacity of which was reduced from $12.0 billion to $7.0 billion as of June 30, 2010. Prudential Funding commercial paper borrowings have generally served as an additional source of financing to meet the working capital needs of Prudential Insurance and its subsidiaries. Prudential Funding also lends to other subsidiaries of Prudential Financial up to limits agreed with the New Jersey Department of Banking and Insurance. As of December 31, 2010, Prudential Funding s outstanding commercial paper borrowings were $874 million, representing an increase of $144 million from December 31, 2009. As of December 31, 2010, the weighted average maturity of Prudential Funding s outstanding commercial paper was 31 days, of which 30% was overnight. The majority of the proceeds from outstanding commercial paper were utilized to fund the working capital needs of our affiliates and short-term cash flow timing mismatches. The daily average commercial paper outstanding during 2010 under this program was $985 million. The weighted average interest rates on these borrowings were 0.31% and 0.77% for the years ended December 31, 2010 and 2009, respectively.

Prudential Funding maintains a support agreement with Prudential Insurance whereby Prudential Insurance has agreed to maintain Prudential Funding s positive tangible net worth at all times. Prudential Financial has also issued a subordinated guarantee covering Prudential Funding s commercial paper program.

While we continue to consider commercial paper one of our alternative sources of liquidity due to the low cost and efficient financing it provides, we have significantly reduced our reliance on commercial paper to fund our operations, and have developed plans that would enable us to further reduce, or if necessary eliminate, our commercial paper borrowings by accessing other sources of liquidity.

As of December 31, 2010, Prudential Financial, Prudential Insurance and Prudential Funding had unsecured committed lines of credit totaling $4.1 billion. These facilities can be used as backup liquidity for our commercial paper programs or for other general corporate purposes. There were no outstanding borrowings under these facilities as of December 31, 2010 or as of the date of this filing. For a further discussion of these lines of credit, see Credit Facilities.

Asset-based Financing

We conduct asset-based or secured financing within our insurance and other subsidiaries, including transactions such as securities lending, repurchase agreements and mortgage dollar rolls, in order to earn spread income, to borrow funds, or to facilitate trading activity. These programs are driven by portfolio holdings of securities that are lendable based on counterparty demand for these securities in the marketplace. The collateral received in connection with these programs is primarily used to purchase securities in the short-term spread portfolios of our domestic insurance entities. Investments held in the short-term spread portfolios include cash and cash equivalents, short-term investments and fixed maturities, including mortgage- and asset-backed securities, with a weighted average life at time of purchase of two years or less. A portion of the asset-backed securities held in our short-term spread portfolios, including our enhanced short-term portfolio, are collateralized by sub-prime mortgages. Floating rate assets comprise the majority of our short-term spread portfolio. See Realized Investment Gains and Losses and General Account Investments General Account Investments Fixed Maturity Securities for a further discussion of our asset-backed securities collateralized by sub-prime holdings, including details regarding those securities held in our enhanced short-term portfolio. These short-term portfolios are subject to specific investment policy statements, which among other things, do not allow for significant asset/liability interest rate duration mismatch.

As of December 31, 2010, our Financial Services Businesses had liabilities totaling $4.172 billion under such programs, including $2.557 billion representing securities sold under agreements to repurchase, $1.614 billion representing cash collateral for loaned securities and $1 million representing securities sold but not yet purchased. Of the $4.172 billion for the Financial Services Businesses as of December 31, 2010, $2.581 billion represents securities that may be returned to the company overnight requiring immediate return of the cash collateral, and the remainder generally has maturities ranging from two days to three months with a weighted average maturity of 14 days. The daily weighted average outstanding under such programs during 2010 was $4.678 billion. As of December 31, 2009, our Financial Services Businesses had liabilities totaling $5.309 billion under such programs. In addition, as of December 31, 2010, our Financial Services Businesses had outstanding mortgage dollar rolls under which we are committed to repurchase $36 million of mortgage-backed securities, or to be announced (TBA) forward contracts. These repurchase agreements do not qualify as secured borrowings and are accounted for as derivatives. These mortgage-backed securities are considered high or highest quality based on NAIC or equivalent rating.

As of December 31, 2010, our Closed Block Business had liabilities totaling $3.885 billion under such programs, including $3.328 billion representing securities sold under agreements to repurchase and $557 million representing cash collateral for loaned securities. Of the $3.885 billion for the Closed Block Business as of December 31, 2010, $2.446 billion represents securities that may be returned to the company overnight requiring immediate return of the cash collateral, and the remainder generally has maturities ranging from two days to three months with a weighted average maturity of 24 days. The daily weighted average outstanding under such programs during 2010 was $3.969 billion. As of December 31, 2009, our Closed Block Business had liabilities totaling $3.888 billion under such programs. In addition, as of December 31, 2010, the Closed Block Business had outstanding mortgage dollar rolls under which we are committed to repurchase $68 million of TBA forward contracts. These repurchase agreements do not qualify as secured borrowings and are accounted for as derivatives. These mortgage-backed securities are considered high or highest quality based on NAIC or equivalent rating.

As of December 31, 2010, our domestic insurance entities had assets eligible for the lending program of $79.4 billion, of which $7.6 billion were on loan. Taking into account market conditions and outstanding loan balances as of December 31, 2010, we believe approximately $25.5 billion of the remaining eligible assets are readily lendable, of which approximately $17.2 billion relates to the Financial Services Businesses; however, these amounts are subject to potential regulatory constraints. Further, changes in market conditions can affect the ability to lend the available assets.

As referenced above, these programs are typically limited to securities in demand that can be loaned at relatively low financing rates. As such, we believe there is unused capacity available through these programs. Holdings of cash and cash equivalent investments in these short-term spread portfolios allow for further flexibility in sizing the portfolio to better match available financing. Current conditions in both the financing and investment markets are continuously monitored in order to appropriately manage the cost of funds, investment spreads, asset/liability duration matching and liquidity.

Federal Home Loan Bank of New York

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

NJDOBI previously permitted Prudential Insurance to pledge collateral to the FHLBNY in an amount of up to 7% of its prior year-end statutory net admitted assets, excluding separate account assets; however, since we elected not to seek an extension, this limitation reset to 5% effective January 1, 2011. Based on Prudential Insurance s statutory net admitted assets as of December 31, 2009, the 5% limitation equates to a maximum amount of pledged assets of $7.4 billion and an estimated maximum borrowing capacity (after taking into account required collateralization levels and purchases of activity-based stock) of approximately $6.2 billion. Nevertheless, FHLBNY borrowings are subject to the FHLBNY s discretion and to the availability of qualifying assets at Prudential Insurance.

As of December 31, 2010, we had pledged qualifying assets with a fair value of $2.8 billion, which supported outstanding collateralized advances of $1.0 billion and collateralized funding agreements of $1.5 billion. The fair value of qualifying assets that were available to Prudential Insurance but not pledged amounted to $5.5 billion as of December 31, 2010.

As of December 31, 2010, $275 million of the FHLBNY outstanding advances is reflected in Short-term debt and matures in December 2011 and the remaining $725 million is in Long-term debt and matures in December 2015. FHLBNY advances declined $1.0 billion from December 31, 2009, reflecting the repayment at maturity of $1.0 billion of advances in June and the refinancing of $1.0 billion of advances in December. The June repayment at maturity was funded through the repayment of an affiliate loan (which was replaced by a loan from Prudential

Financial) and with available cash. As of December 31, 2010, $650 million of the outstanding FHLBNY proceeds were used to support the operating needs of our businesses, and $350 million were used to purchase investments, including the FHLBNY activity-based stock. The funding agreements issued to the FHLBNY, which are reflected in Policyholders account balances, have priority claim status above debt

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holders of Prudential Insurance. These funding agreements currently serve as a substitute funding source for a product of our Retirement segment, which earns investment spread that was previously funded by retail medium-term notes issued by Prudential Financial.

Federal Home Loan Bank of Boston

Prudential Retirement Insurance and Annuity Company, or PRIAC, became a member of the Federal Home Loan Bank of Boston, or FHLBB, in December 2009. Membership allows PRIAC access to collateralized advances which will be classified in Short-term debt or Long-term debt, depending on the maturity date of the obligation. PRIAC s membership in FHLBB requires the ownership of member stock and borrowings from FHLBB require the purchase of activity-based stock in an amount between 3.0% and 4.5% of outstanding borrowings, depending on the maturity date of the obligation. As of December 31, 2010, PRIAC had no advances outstanding under the FHLBB facility.

The Connecticut Department of Insurance, or CTDOI, permits PRIAC to pledge up to $2.6 billion in qualifying assets to secure FHLBB borrowings through December 31, 2011. PRIAC must seek re-approval from CTDOI prior to borrowing additional funds after that date. Based on available eligible assets as of December 31, 2010, PRIAC had an estimated maximum borrowing capacity, after taking into consideration required collateralization levels and required purchases of activity-based FHLBB stock, of approximately $1.1 billion.

Liquidity and Capital Resources of Subsidiaries

Domestic Insurance Subsidiaries

General Liquidity

We manage the liquidity of our domestic insurance operations to ensure stable, reliable and cost-effective sources of cash flows to meet all of our obligations. Liquidity is provided by a variety of sources, as described more fully below, including portfolios of liquid assets. The investment portfolios of our domestic operations are integral to the overall liquidity of those operations. We segment our investment portfolios and employ an asset/liability management approach specific to the requirements of our product lines. This enhances the discipline applied in managing the liquidity, as well as the interest rate and credit risk profiles, of each portfolio in a manner consistent with the unique characteristics of the product liabilities. We use a projection process for cash flows from operations to ensure sufficient liquidity is available to meet projected cash outflows, including claims. The impact of Prudential Funding s financing capacity on liquidity, as discussed more fully under Alternative Sources of Liquidity, is considered in the internal liquidity measures of the domestic insurance operations.

Liquidity is measured against internally-developed benchmarks that take into account the characteristics of both the asset portfolio and the liabilities that they support. The results are affected substantially by the overall asset type and quality of our investments.

Pursuant to the documentation for the disposition of our property and casualty operations completed in 2003, we were required to deposit cash or securities into a trust for the purpose of securing insurance liabilities that were to have been transferred to Prudential Insurance following completion of the disposition but that have not been so transferred. In June 2010, we deposited securities which, as of December 31, 2010, have a market value of $577 million. The deposit of these assets was not a material liquidity event for Prudential Insurance.

Cash Flow

The principal sources of liquidity for Prudential Insurance and our other domestic insurance subsidiaries are premiums and annuity considerations, investment and fee income, and investment maturities and sales associated with our insurance and annuity operations, as well as internal and external borrowings. The principal uses of that liquidity include benefits, claims, dividends paid to policyholders, and payments to policyholders and contractholders in connection with surrenders, withdrawals and net policy loan activity. Other uses of liquidity include commissions, general and administrative expenses, purchases of investments, and payments in connection with financing activities.

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We believe that the cash flows from our insurance and annuity operations are adequate to satisfy the current liquidity requirements of these operations, including under reasonably foreseeable stress scenarios. The continued adequacy of this liquidity will depend upon factors such as future securities market conditions, changes in interest rate levels, policyholder perceptions of our financial strength, and the relative safety of competing products, each of which could lead to reduced cash inflows or increased cash outflows. In addition, market volatility can impact the level of capital required to support our businesses, particularly in our annuity business. Our domestic insurance operations cash flows from investment activities result from repayments of principal, proceeds from maturities and sales of invested assets and investment income, net of amounts reinvested. The primary liquidity risks with respect to these cash flows are the risk of default by debtors or bond insurers, our counterparties willingness to extend repurchase and/or securities lending arrangements, commitments to invest and market volatility. We closely manage these risks through our credit risk management process and regular monitoring of our liquidity position.

In managing the liquidity of our domestic insurance operations, we also consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions when selecting assets to support these contractual obligations. We use surrender charges and other contract provisions to mitigate the extent, timing and profitability impact of withdrawals of funds by customers from annuity contracts and deposit liabilities. The following table sets forth withdrawal characteristics of our general account annuity reserves and deposit liabilities (based on statutory liability values) as of the dates indicated.

	December 31, 2010		December 31, 2009	
	Amount	% of Total	Amount	% of Total
		($ in millions)		
Not subject to discretionary withdrawal provisions	$ 37,505	47%	$ 38,078	47%
Subject to discretionary withdrawal, with adjustment:				
With market value adjustment	21,105	26	20,570	26
At market value	1,876	2	1,598	2
At contract value, less surrender charge of 5% or more	2,471	3	4,166	5
Subtotal	62,957	78	64,412	80
Subject to discretionary withdrawal at contract value with no surrender charge or surrender charge of less than 5%	17,404	22	16,382	20
Total annuity reserves and deposit liabilities	$ 80,361	100%	$ 80,794	100%

Individual life insurance policies are less susceptible to withdrawal than our annuity reserves and deposit liabilities because policyholders may incur surrender charges and be subject to a new underwriting process in order to obtain a new insurance policy. Our annuity reserves with guarantee features may be less susceptible to withdrawal than historical experience indicates, due to the perceived value of these guarantee features to policyholders as a result of market declines in recent years. Annuity benefits and guaranteed investment withdrawals under group annuity contracts are generally not subject to early withdrawal. Gross account withdrawals for our domestic insurance operations products were consistent with our assumptions in asset/liability management, and the associated cash outflows did not have a material adverse impact on our overall liquidity.

Liquid Assets

Liquid assets include cash, cash equivalents, short-term investments, fixed maturities that are not designated as held to maturity and public equity securities. As of December 31, 2010 and 2009, our domestic insurance operations had liquid assets of $138.5 billion and $134.3 billion, respectively, which includes a portion financed with asset-based financing. The portion of liquid assets comprised of cash and cash equivalents and short-term investments was $5.8 billion and $11.1 billion as of December 31, 2010 and 2009, respectively. As of December 31, 2010, $116.7 billion, or 90.5%, of the fixed maturity investments that are not designated as held-to-maturity within our domestic insurance company general account portfolios were considered high or highest quality based on NAIC or equivalent rating. The remaining $12.2 billion, or 9.5%, of these fixed maturity investments were considered other than high or highest quality based on NAIC or equivalent rating. We consider attributes of the various categories of liquid assets (for example, type of asset and credit quality) in calculating internal liquidity measures in order to evaluate the adequacy of our domestic insurance operations liquidity

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under a variety of stress scenarios. We believe that the liquidity profile of our assets is sufficient to satisfy current liquidity requirements, including under foreseeable stress scenarios.

Given the size and liquidity profile of our investment portfolios, we believe that claim experience varying from our projections does not constitute a significant liquidity risk. Our asset/liability management process takes into account the expected maturity of investments and expected claim payments as well as the specific nature and risk profile of the liabilities. Historically, there has been no significant variation between the expected maturities of our investments and the payment of claims.

Our domestic insurance companies liquidity is managed through access to substantial investment portfolios as well as a variety of instruments available for funding and/or managing cash flow mismatches, including from time to time those arising from claim levels in excess of projections. To the extent we need to pay claims in excess of projections, we may borrow temporarily or sell investments sooner than anticipated to pay these claims, which may result in increased borrowing costs or realized investment gains or losses affecting results of operations. For a further discussion of realized investment gains and losses, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses. We believe that borrowing temporarily or selling investments earlier than anticipated will not have a material impact on the liquidity of our domestic insurance companies. Payment of claims and sale of investments earlier than anticipated would have an impact on the reported level of cash flow from operating, investing and financing activities, respectively, in our financial statements. Instead of selling investments at depressed market prices externally, in order to preserve economic value (including tax attributes), we may also sell investments from one subsidiary to another at fair market value or transfer investments internally between businesses within the same subsidiary.

Capital

The Risk Based Capital, or RBC, ratio is a primary measure by which we evaluate the capital adequacy of Prudential Insurance and our other domestic life insurance subsidiaries, which includes businesses in both the Financial Services Businesses and the Closed Block Business. We manage Prudential Insurance and our other domestic life insurance subsidiaries RBC ratios to a level consistent with their ratings targets. RBC is determined by statutory guidelines and formulas that consider, among other things, risks related to the type and quality of the invested assets, insurance-related risks associated with an insurer s products and liabilities, interest rate risks and general business risks. The RBC ratio calculations are intended to assist insurance regulators in measuring the adequacy of an insurer s statutory capitalization. As of December 31, 2010, RBC for Prudential Insurance was approximately 530%, which exceeded the minimum levels required by applicable insurance regulations. In addition, all of our other domestic life insurance subsidiaries have RBC ratios that exceed the minimum level required by applicable insurance regulations. The reporting of RBC measures is not intended for the purpose of ranking any insurance company or for use in connection with any marketing, advertising or promotional activities.

The level of statutory capital of our domestic life insurance subsidiaries can be materially impacted by interest rate and equity market fluctuations, changes in the values of derivatives, the level of impairments recorded and credit quality migration of the investment portfolio, among other items. Further, the recapture of business subject to reinsurance arrangements due to defaults by, or credit quality migration affecting, the reinsurers could result in higher required statutory capital levels. The level of statutory capital of our domestic life insurance subsidiaries is also affected by statutory accounting rules, which are subject to change by insurance regulators.

During 2010, we changed the focus of our capital hedge program from the equity price risk associated with our annuities business to a broader view of equity market exposure of the statutory capital of the Company as a whole. In the second quarter of 2010, we removed the equity component of our capital hedge within the Individual Annuities segment as described under Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities and entered into equity index-linked derivative transactions that are designed to mitigate the impact on statutory capital of a severe equity market stress event. The program now focuses on tail risk rather than general equity market declines in order to protect our capital in a more cost-effective manner under stress scenarios. We assess the composition of our hedging program on an ongoing basis, and we may change it from time to time based on our evaluation of the Company s risk position or other factors.

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In addition to hedging the equity market exposure as mentioned above, we also manage certain risks associated with our variable annuity products through our hedging programs, as described under Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities. In our living benefits hedging program, we purchase equity options and futures as well as interest rate derivatives to hedge certain optional living benefit features accounted for as embedded derivatives against changes in equity markets, interest rates, and market volatility. Historically, our hedging strategy sought to generally match the sensitivities of the embedded derivative liability as defined by GAAP, excluding the impact of the market-perceived risk of our own non-performance, with capital market derivatives and options. In the third quarter of 2010, we revised our hedging strategy as, in the low interest rate environment, we do not believe the GAAP value of the embedded derivative liability to be an appropriate measure for determining the hedge target. Our new hedge target continues to be grounded in a GAAP/capital markets valuation framework but incorporates modifications to the risk-free return assumption to account for the fact that the underlying customer separate account funds, which support these living benefits, are invested in assets that contain risk. Consistent with sound risk management practices we evaluate hedge levels versus our target given overall capital considerations of the Company and prevailing capital market conditions and may decide to temporarily hedge to an amount that differs from our hedge target definition. As part of our capital planning and management process, we use a disciplined framework to ensure the availability of adequate capital under reasonably foreseeable contingencies, including potentially adverse outcomes resulting from our hedging strategy.

We reinsure variable annuity living benefit guarantees to our offshore captive reinsurance company. We satisfy the reinsurance reserve credit requirements by funding statutory reserve credit trusts. Reinsurance credit reserve requirements can move materially in either direction due to changes in equity markets and interest rates, actuarial assumptions and other factors. Higher reinsurance credit reserve requirements would necessitate depositing additional assets in the statutory reserve credit trusts, while lower reinsurance credit reserve requirements would allow assets to be removed from the statutory reserve credit trusts. We provided additional funding to the captive reinsurance trusts of $379 million for the second quarter of 2010 to meet increased reserve credit requirements due to unfavorable equity market conditions and lower interest rates, and provided an additional $354 million for the third quarter of 2010 due to an update of actuarial assumptions based on an annual review, most notably a decrease in expected future lapse rates, partially offset by favorable equity market conditions. Due to favorable equity market conditions and higher interest rates in the fourth quarter of 2010, our need to fund the captive reinsurance trusts has declined by $1,255 million.

We review the reinsurance reserve credit requirements and the value of the reinsurance trust assets on a quarterly basis. If we determine that the value of the reinsurance trust assets are not sufficient to meet the reinsurance reserve credit requirements, we would expect to satisfy those additional needs through a combination of funding the reinsurance credit trusts with available cash, loans from Prudential Financial and/or affiliates and assets pledged to our offshore captive reinsurance company under hedging positions related to our living benefit features. We also continue to evaluate other options to address reserve credit needs such as obtaining letters of credit.

International Insurance and Investments Subsidiaries

In our international insurance operations, liquidity is provided through operating cash flows from ongoing operations as well as portfolios of liquid assets. In managing the liquidity, and the interest and credit risk profiles of our international insurance portfolios, we employ a discipline similar to the discipline employed for domestic insurance subsidiaries. We monitor liquidity through the use of internal liquidity measures, taking into account the liquidity of the asset portfolios.

As with our domestic operations, in managing the liquidity of these operations, we consider the risk of policyholder and contractholder withdrawals of funds earlier than our assumptions in selecting assets to support these contractual obligations. As of December 31, 2010 and 2009, our international insurance subsidiaries had total general account insurance-related liabilities (other than dividends payable to policyholders) of $84.4 billion and $74.0 billion, respectively. Of those amounts, $44.2 billion and $41.1 billion, respectively, were associated with Gibraltar Life.

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A special dividend was payable to certain Gibraltar Life policyholders based on 70% of the net increase in the fair value, through March 2009, of certain real estate and loans, net of transaction costs and taxes, included in the Gibraltar Life reorganization plan. The first special dividend was paid in 2005 and the final special dividend was payable generally on the next anniversary of the issue date of each applicable insurance policy, beginning in April 2009. In 2010, Gibraltar Life made distributions to policyholders of $129 million in payment of the 2009 special dividend liability, primarily in the form of additional policy values, and to a lesser extent in cash. The liability related to the special dividend was fully paid as of June 30, 2010.

On February 1, 2011, we completed our acquisition of the Star and Edison Businesses. Gibraltar Life and Prudential of Japan each contributed $400 million to the payment of the acquisition purchase price, with the remaining funding provided by Prudential Financial and other subsidiaries. Although these contributions will reduce local solvency margin ratios in Gibraltar Life and Prudential of Japan, the solvency margins for these companies remain in excess of our targets. See below for additional information regarding solvency margin requirements. The contributions did not materially impact Gibraltar Life s or Prudential of Japan s liquidity as their investment portfolios were positioned to provide the funding.

Star and Edison solvency margin ratios at acquisition are estimated to be in excess of our solvency margin targets and will continue to be managed to capitalization levels consistent with our AA ratings targets. We believe the liquidity profiles of Star and Edison are sufficient to meet their obligations, including under reasonably foreseeable stress scenarios.

On May 1, 2009, our Gibraltar Life operations acquired Yamato Life, a Japanese life insurance company that declared bankruptcy in October 2008. Gibraltar Life served as the reorganization sponsor for Yamato and under the reorganization agreement acquired Yamato by contributing $72 million of capital to Yamato. Concurr