O Leary Patrick
Form 4
August 12, 2005

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

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(Print or Type Responses)

1. Name and Address of Reporting Person *
O Leary Patrick

(Last) (First) (Middle)

C/O TALK AMERICA HOLDINGS, INC., 6805 ROUTE 202

(Street)

NEW HOPE, PA 18938

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
TALK AMERICA HOLDINGS INC [TALK]

3. Date of Earliest Transaction (Month/Day/Year)
08/12/2005

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
EVP - Business Services

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative	2. Conversion	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if	4. Transaction	5. Number of Derivative	6. Date Exercisable and Expiration Date	7. Title and Amount of Underlying Securities

Security (Instr. 3)	or Exercise Price of Derivative Security		any (Month/Day/Year)	Code (Instr. 8)		Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		(Month/Day/Year)		(Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Employee Stock Option	$ 8.62	08/12/2005		A		75,000		08/12/2006	08/12/2010	Common Stock	75,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
O Leary Patrick C/O TALK AMERICA HOLDINGS, INC. 6805 ROUTE 202 NEW HOPE, PA 18938			EVP - Business Services	

Signatures

/s/ Craig H. Pizer, attorney-in-fact for Patrick O Leary	08/12/2005
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. SIZE="2">The tables below present the balances of assets and liabilities measured at fair value on a recurring basis, as of June 30, 2009 and December 31, 2008, for Consolidated, Financial Services Businesses and Closed Block Business.

	Consolidated as of June 30, 2009				
	Level 1	Level 2	Level 3(1)	Netting(2)	Total
			(in millions)		
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$	$ 6,563	$	$	$ 6,563
Obligations of U.S. states and their political subdivisions		748			748
Foreign government bonds		35,704	43		35,747
Corporate securities		81,570	1,279		82,849
Asset-backed securities		4,494	6,014		10,508
Commercial mortgage-backed securities		10,192	59		10,251
Residential mortgage-backed securities		12,050	197		12,247

Sub-total		151,321	7,592		158,913
Trading account assets supporting insurance liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies		112			112
Obligations of U.S. states and their political subdivisions		2			2
Foreign government bonds		479			479
Corporate securities		8,415	197		8,612
Asset-backed securities		423	269		692
Commercial mortgage-backed securities		2,127	5		2,132
Residential mortgage-backed securities		1,357	24		1,381
Equity securities	615	186	2		803
All other activity	336	217			553
Sub-total	951	13,318	497		14,766
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies		59			59
Obligations of U.S. states and their political subdivisions					
Foreign government bonds		33			33
Corporate securities	10	175	59		244
Asset-backed securities		1,587	35		1,622
Commercial mortgage-backed securities		111	9		120
Residential mortgage-backed securities		112	6		118
Equity securities	72	10	21		103
All other activity	12	4,968	906	(4,470)	1,416
Sub-total	94	7,055	1,036	(4,470)	3,715
Equity securities, available for sale	3,460	2,106	351		5,917
Commercial mortgage and other loans		508			508
Other long-term investments	50	133	495		678
Short-term investments	3,251	2,819			6,070
Cash and cash equivalents	2,039	8,432			10,471
Other assets	2,018	453	26		2,497
Sub-total excluding separate account assets	11,863	186,145	9,997	(4,470)	203,535
Separate account assets(3)	54,592	82,470	14,204		151,266
Total assets	$ 66,455	$ 268,615	$ 24,201	$ (4,470)	$ 354,801
Future policy benefits			796		796
Long-term debt			1,167		1,167
Other liabilities	15	4,607	79	(3,878)	823
Total liabilities	$ 15	$ 4,607	$ 2,042	$ (3,878)	$ 2,786

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	Level 1	Level 2	Level 3(1)	Netting(2)	Total
	Financial Services Businesses as of June 30, 2009				
			(in millions)		
Fixed maturities, available for sale:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies	$	$ 3,462	$	$	$ 3,462
Obligations of U.S. states and their political subdivisions		480			480
Foreign government bonds		35,151	30		35,181
Corporate securities		56,007	849		56,856
Asset-backed securities		3,534	3,423		6,957
Commercial mortgage-backed securities		6,736	59		6,795
Residential mortgage-backed securities		9,232	121		9,353
Sub-total		114,602	4,482		119,084
Trading account assets supporting insurance liabilities:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies		112			112
Obligations of U.S. states and their political subdivisions		2			2
Foreign government bonds		479			479
Corporate securities		8,415	197		8,612
Asset-backed securities		423	269		692
Commercial mortgage-backed securities		2,127	5		2,132
Residential mortgage-backed securities		1,357	24		1,381
Equity securities	615	186	2		803
All other activity	336	217			553
Sub-total	951	13,318	497		14,766
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies		59			59
Obligations of U.S. states and their political subdivisions					
Foreign government bonds		33			33
Corporate securities	10	68	47		125
Asset-backed securities		1,562	35		1,597
Commercial mortgage-backed securities		111	9		120
Residential mortgage-backed securities		112	6		118
Equity securities	51	10	21		82
All other activity	12	4,968	906	(4,470)	1,416
Sub-total	73	6,923	1,024	(4,470)	3,550
Equity securities, available for sale	1,134	1,963	307		3,404
Commercial mortgage and other loans		508			508
Other long-term investments	50	59	495		604
Short-term investments	2,288	2,435			4,723
Cash and cash equivalents	1,987	6,802			8,789
Other assets	2,018	453	26		2,497
Sub-total excluding separate account assets	8,501	147,063	6,831	(4,470)	157,925
Separate account assets(3)	54,592	82,470	14,204		151,266
Total assets	$ 63,093	$ 229,533	$ 21,035	$ (4,470)	$ 309,191
Future policy benefits			796		796
Long-term debt			1,167		1,167
Other liabilities	15	4,607	79	(3,878)	823
Total liabilities	$ 15	$ 4,607	$ 2,042	$ (3,878)	$ 2,786

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Explanation of Responses:

	Closed Block Business as of June 30, 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	$	$ 3,101	$	$	$ 3,101
Obligations of U.S. states and their political subdivisions		268			268
Foreign government bonds		553	13		566
Corporate securities		25,563	430		25,993
Asset-backed securities		960	2,591		3,551
Commercial mortgage-backed securities		3,456			3,456
Residential mortgage-backed securities		2,818	76		2,894
Sub-total		36,719	3,110		39,829
Trading account assets supporting insurance liabilities					
Other trading account assets:					
U.S. Treasury securities and obligations of U.S. government authorities and agencies					
Obligations of U.S. states and their political subdivisions					
Foreign government bonds					
Corporate securities		107	12		119
Asset-backed securities		25			25
Commercial mortgage-backed securities					
Residential mortgage-backed securities					
Equity securities	21				21
All other activity					
Sub-total	21	132	12		165
Equity securities, available for sale	2,326	143	44		2,513
Commercial mortgage and other loans					
Other long-term investments		74			74
Short-term investments	963	384			1,347
Cash and cash equivalents	52	1,630			1,682
Other assets					
Sub-total excluding separate account assets	3,362	39,082	3,166		45,610
Separate account assets(3)					
Total assets	$ 3,362	$ 39,082	$ 3,166	$	$ 45,610
Future policy benefits					
Long-term debt					
Other liabilities					
Total liabilities	$	$	$	$	$

(1) The amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 7% for Consolidated, Financial Services Businesses and Closed Block Business. 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 5% and 4% for Consolidated and Financial Services Businesses, respectively. 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 as permitted by FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts and FSP FIN 39-1, Amendment of FASB Interpretation No. 39*.

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

	Financial Services Businesses as of December 31, 2008				
	Level 1	Level 2	Level 3(1)	Netting(2)	Total
			(in millions)		
Fixed maturities, available for sale	$	$ 117,393	$ 1,760	$	$ 119,153
Trading account assets supporting insurance liabilities	748	12,982	145		13,875
Other trading account assets	143	9,774	1,384	(7,085)	4,216
Equity securities, available for sale	1,548	1,818	299		3,665
Commercial mortgage and other loans		517	56		573
Other long-term investments	246	54	1,015		1,315
Short-term investments	1,614	1,377			2,991
Cash and cash equivalents	2,379	7,014			9,393
Other assets	1,255	2,500	26		3,781
Sub-total excluding separate account assets	7,933	153,429	4,685	(7,085)	158,962
Separate account assets(3)	56,362	70,953	19,780		147,095
Total assets	$ 64,295	$ 224,382	$ 24,465	$ (7,085)	$ 306,057
Future policy benefits			3,229		3,229
Long-term debt			324		324
Other liabilities(4)	(16)	6,692	138	(5,948)	866
Total liabilities	$ (16)	$ 6,692	$ 3,691	$ (5,948)	$ 4,419

	Closed Block Business as of December 31, 2008				
	Level 1	Level 2	Level 3(1)	Netting(2)	Total
			(in millions)		
Fixed maturities, available for sale	$	$ 38,394	$ 509	$	$ 38,903
Trading account assets supporting insurance liabilities					
Other trading account assets		108	12		120
Equity securities, available for sale	2,253	121	26		2,400
Commercial mortgage and other loans					
Other long-term investments		211			211
Short-term investments	987	497			1,484
Cash and cash equivalents	133	1,820			1,953
Other assets					
Sub-total excluding separate account assets	3,373	41,151	547		45,071
Separate account assets(3)					
Total assets	$ 3,373	$ 41,151	$ 547	$	$ 45,071
Future policy benefits					
Long-term debt					
Other liabilities	73		1		74
Total liabilities	$ 73	$	$ 1	$	$ 74

(1) The amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 7%, 8% and 1% for Consolidated, Financial Services Businesses and Closed Block Business, respectively. Excluding separate account assets for which the risk is borne by the policyholder, the amount of Level 3 assets taken as a percentage of total assets measured at fair value on a recurring basis totaled 3% for both Consolidated and 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 as permitted by FASB Interpretation No. 39, *Offsetting of Amounts Related to Certain Contracts and FSP FIN 39-1, Amendment of FASB Interpretation No. 39*.

(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.

(4) The negative Other liability amount for Financial Services Businesses reflects the impact of inter-company eliminations.

For additional information regarding the balances of assets and liabilities measured at fair value by hierarchy level see Note 12 to the Unaudited Interim Consolidated Financial Statements.

The determination of fair value, which for certain assets and liabilities is dependent on the application of estimates and assumptions, can have a significant impact on our results of operations. As discussed in more detail below, the determination of fair value for certain assets and liabilities may require the application of a greater degree of judgment given current 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. The following sections describe the key estimates and assumptions surrounding certain assets and liabilities, measured at fair value on a recurring basis, that could have a significant impact on our results of operations or involve the use of significant unobservable inputs. Information regarding Separate Account Assets is excluded as the risk of assets for these categories is ultimately borne by our customers and policyholders.

Valuation of Fixed Maturity Securities

Our public fixed maturity securities include investments in corporate, foreign government, asset-backed, residential mortgage-backed, commercial mortgage-backed, U.S. government, and state and municipal securities. The fair values of our public fixed maturity securities are generally based on prices obtained from independent pricing services. Prices are sourced from multiple pricing services, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. We generally receive prices from multiple

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pricing services for each security, but ultimately use the price from the pricing service highest in the vendor hierarchy based on the respective asset type. In order to validate reasonability, prices are reviewed by our internal asset managers through comparison with directly observed recent market trades and internal estimates of current fair value, generally developed using market observable inputs and economic indicators. Consistent with the fair value hierarchy described above, securities with validated quotes from pricing services are generally reflected within Level 2. If we conclude pricing information received from third party pricing services is not reflective of market activity or other inputs we have observed in the market, we may challenge the price through a formal process with the pricing service. If the pricing service updates the price to be more consistent in comparison to our presented market observations, the security remains within Level 2.

If we ultimately conclude that pricing information received from the independent pricing service is not reflective of market activity, we use values based on non-binding broker quotes, if available. If we conclude values from both pricing services and brokers are not reflective of market activity, we may over-ride the information from the pricing service or broker with an internally developed valuation. As of June 30, 2009 and December 31, 2008 over-rides on a net basis were not material. In circumstances where vendor pricing is not available, we also use internally developed valuations or non-binding broker quotes to determine fair value. These estimates may use significant unobservable inputs, which reflect our own assumptions about the inputs market participants would use in pricing the asset. Circumstances where observable market data are not available may include events such as market illiquidity and credit events related to the security. Pricing service over-rides, internally developed valuations and non-binding broker quotes are generally included in Level 3 in our fair value hierarchy. As discussed above, based on our conclusion that the market for asset-backed securities collateralized by sub-prime mortgages was inactive as of June 30, 2009, 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. As of June 30, 2009 asset-backed securities collateralized by sub-prime mortgages with a fair value of $5,362 million were included in Level 3 based on the unobservable inputs used in the discounted cash flow model. Despite the dislocated markets and low levels of liquidity in 2008 and the first six months of 2009, except for our asset-backed securities collateralized by sub-prime mortgages as discussed above, pricing received from the independent pricing services was not materially different from our internal estimates of current market value for the remainder of our fixed maturity portfolio. As a result, we generally continued to use the price provided by the independent pricing service under our normal pricing protocol.

Our private fixed maturities are primarily comprised of investments in private placement securities originated by our internal private asset managers. The fair values of these private fixed maturities are primarily determined using a discounted cash flow model, which utilizes a discount rate based upon the average of spread surveys collected from private market intermediaries who are active in both primary and secondary transactions, and takes into account, among other factors, the credit quality and industry sector of the issuer and the reduced liquidity associated with private placements. Generally, these securities have been reflected within Level 2 in our fair value hierarchy. For certain of these securities, the discounted cash flow model may also incorporate significant unobservable inputs, which reflect our own assumptions about the inputs market participants would use in pricing the asset. Accordingly, these securities have been reflected within Level 3 in our fair value hierarchy.

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

Our Level 3 fixed maturity securities generally include certain public fixed maturities and private fixed maturities priced internally based on observable and unobservable inputs. As of June 30, 2009 our Level 3 fixed maturity securities also included certain asset-backed securities collateralized by sub-prime mortgages with a fair value of $5,362 million. As discussed above, we reported fair values for these sub-prime securities which were net $693 million higher than the estimated fair values received from third party pricing services or brokers, based on our determination that as of June 30, 2009, the market for asset-backed securities collateralized by sub-prime mortgages was an inactive market. The $693 million increase in fair value included $660 million relating to available-for-sale securities, with $365 million related to securities attributable to our Financial Services Businesses and $295 million related to securities attributable to our Closed Block Business. The increase to the fair value of these available-for-sale securities resulted in a corresponding increase to Accumulated other comprehensive income (loss), net, The remaining $33 million increase in fair value related to trading account assets supporting insurance liabilities in our Financial Services Business, and resulted in a corresponding increase in Asset management fees and other income. Excluding these asset-backed securities collateralized by sub-prime mortgages, as of June 30, 2009 and December 31, 2008, about half of our Level 3 fixed maturity securities were public fixed maturities, with values primarily based on non-binding broker-quotes, and about half were private fixed maturities, with values primary based on internally developed models, as discussed above. Significant unobservable inputs used included: issue specific credit adjustments, material non-public financial information, management judgment, estimation of future earnings and cashflows, default rate assumptions, liquidity assumptions and non-binding quotes from market makers. These inputs are usually considered unobservable, as not all market participants will have access to this data. As of December 31, 2008 we classified approximately $122 million of our investments in asset-backed securities collateralized by sub-prime mortgages as Level 3, primarily reflecting securities valued based on non-binding broker quotes. The vast majority of our asset-backed securities collateralized by sub-prime mortgages were valued as of December 31, 2008 using information from independent pricing services, and were included in Level 2 based on the process described above. Net realized and unrealized gains (losses) for Level 3 Available for Sale fixed maturities totaled $(333) million and $1,129 million, respectively, for the three months ended June 30, 2009 and $(85) million and $(7) million, respectively, for the three months ended June 30, 2008. Net realized and unrealized gains (losses) for Level 3 Available for Sale fixed maturities totaled $(414) million and $866 million, respectively, for the six months ended June 30, 2009 and $(229) million and $(129) million, respectively, for the six months ended June 30, 2008.

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, as well as others within our portfolio of fixed maturities, are in a significant unrealized loss position due to increased credit spreads and illiquidity in the financial markets, we believe the ultimate value that will be realized from these investments is greater than that reflected by their current fair value.

Valuation of Equity Securities

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

Impact of Valuation of Fixed Maturities and Equity Securities on Results of Operations

The impact our determination of fair value for fixed maturity and equity securities has on our results of operations is dependent on our classification of the security as either trading, available for sale, or held to maturity. For our investments classified as trading, the impact of changes in fair value is recorded within Asset management fees and other income. For our investments classified as available for sale, the impact of changes in fair value is recorded as an unrealized gain or loss in Accumulated other comprehensive income (loss), net, a separate component of equity. Our investments classified as held to maturity are carried at amortized cost. 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 fair value is other-than-temporary. When it is determined that a decline in value of an equity security is other-than-temporary, the carrying value of the equity security is impaired to its fair value, with a corresponding charge to earnings. Under FSP FAS 115-2 and FAS 124-2, effective January 1, 2009, when an other-than-temporary impairment of a debt security has occurred, the amount of the other-than-temporary impairment recognized in earnings depends on whether 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. If the debt security meets either of these two criteria, the other-than-temporary impairment recognized in earnings is equal to the entire difference between the security s amortized cost basis and its fair value at the impairment measurement date. For other-than-temporary impairments of debt securities that do not meet either of these two criteria, the net amount recognized in earnings is equal to 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. Any difference between the fair value and the net present value of the debt security at the impairment measurement date is recorded in Other comprehensive income (loss). Prior to the adoption of FSP FAS 115-2 and FAS 124-2, the other-than-temporary impairment recognized in earnings for debt securities was equal to the total difference between amortized cost and fair value at the impairment measurement date. The other-than-temporary impairment charged to earnings is reflected within Realized investment gains (losses), net in the statement of operations and is included in income from continuing operations under U.S. GAAP but excluded from adjusted operating income. The level of impairment losses can be expected to increase when economic conditions worsen and decrease when economic conditions improve. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses for a discussion of the effects of impairments on our operating results for the periods ended June 30, 2009 and 2008.

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 Realized Investment Gains and Losses and General Account Investments 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 Realized Investment Gains and Losses and General Account Investments General Account Investments Equity Securities Other-than-Temporary Impairments of Equity Securities below.

Valuation of Commercial Mortgage Loans

Upon the adoption of SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities, we elected the fair value option for certain loans held within the commercial mortgage operations of the asset management segment. Specifically, the fair value option was elected for funded commercial mortgage loans held for sale that were originated beginning January 1, 2008. In addition, we elected the fair value option for fixed rate commercial mortgage loans held for investment that were held at December 31, 2007 and for such loans originated beginning January 1, 2008. We elected the fair value option for the loan programs mentioned above primarily to eliminate the need for hedge accounting under SFAS No. 133, while still achieving an offset in earnings from the associated interest rate derivative hedges.

Due to volatility in the credit markets, we experienced unexpected volatility in the fair value of the aforementioned fixed rate commercial mortgage loans held for investment that was not substantially offset by the associated interest rate derivative hedges during the quarter ended June 30, 2008. Therefore, we decided to no longer elect the fair value option on loans held for investment that were originated after June 30, 2008, and have applied hedge accounting under SFAS No. 133.

The fair value of loans held for investment and accounted for using the Fair Value Option discussed above is determined based on the present value of the expected future cash flows discounted at the appropriate U.S. Treasury rate, adjusted for the current market spread for similar quality loans. Since the interest rate and market spread assumptions for similar quality loans are generally observable based upon market transactions, the fair value of loans held for investment has been reflected within Level 2 in our fair value hierarchy.

The fair value of loans held for sale and accounted for using the Fair Value Option discussed above, as well as those loans reported at fair value on a non-recurring basis accounted for using the lower of cost or market approach is determined utilizing pricing indicators from the whole loan markets, which we consider our principal exit markets for these loans. We have evaluated the valuation inputs used for these assets, including the terms of the loans, prevailing interest rates and credit risk, and deemed that the primary pricing inputs are Level 2 for the loans held for sale accounted for using the Fair Value Option and are Level 3 for loans reported at fair value on a non-recurring basis.

Valuation of Other Long-Term Investments

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

The fair value of the feeder fund investments in master funds are generally determined by reference to the investments in the underlying master funds. The fair value of investments in funds holding publicly traded equity securities are generally based on quoted prices in active markets for identical investments and are therefore reflected as Level 1. The fair value of investments in funds holding public fixed maturities are generally based on validated quotes from pricing services as described above, and are reflected in Level 2.

The fair value of wholly-owned real estate held in consolidated investment funds is determined through an independent appraisal process. The appraisals generally utilize a discounted cash flow model, following an income approach, that incorporates various assumptions including rental revenue, operating expenses and discount rates. These appraisals and the related assumptions are updated at least annually, and incorporate historical property experience and any observable market data, including any market transactions. Since many of the assumptions utilized are unobservable and are considered to be significant inputs to the valuation, the real estate investments within other long-term investments have been reflected within Level 3 in our fair value hierarchy. Consolidated real estate investment funds classified as Level 3 as of June 30, 2009 and December 31, 2008 totaled approximately $0.5 billion and $1.0 billion respectively. Our direct investment in these funds is not material, and the majority of the assets recorded as a result of the consolidation of these funds is offset by a noncontrolling interest reflected as a separate component of equity, which amount is not considered to be fair value and therefore, not included in fair value reporting above.

Valuation of Derivative Instruments

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

Our over-the-counter, or OTC, derivative contracts are executed under master netting agreements with counterparties with a Credit Support Annex, or CSA, which is a bilateral ratings-sensitive agreement that requires collateral postings at established credit threshold levels. These agreements protect our interest, as well as those of our counterparties, should either party suffer a credit rating deterioration. The vast majority of our derivative agreements are with highly rated major international financial institutions. Consistent with the practice of major international financial institutions, we use the credit spread embedded in the LIBOR interest rate curve to reflect non-performance risk when determining the fair value of our derivative assets and liabilities. We believe this credit spread is an appropriate estimate of the non-performance risk for derivative related assets and liabilities between highly rated institutions after consideration of the impacts of the collateral posting process.

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

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

Most OTC derivative contracts 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 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. The fair values of OTC derivative assets and liabilities classified as Level 3 totaled approximately $0.9 billion and $79 million as of June 30, 2009 and $1.3 billion and $140 million as of December 31, 2008, respectively, without giving consideration to the impact of netting.

Derivatives that are valued based upon models with unobservable market input values or input values from less actively traded or less-developed markets are classified within Level 3 in our fair value hierarchy. Derivatives classified as Level 3 include first-to-default credit basket swaps, look-back equity options and other structured options. For additional information regarding embedded derivatives in our annuity and retirement products classified as Level 3, see Valuation of Variable Annuity Optional Living Benefit Features below. The fair values of first-to-default credit basket swaps are derived from relevant observable inputs such as:

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individual credit default spreads, interest rates, recovery rates and unobservable model-specific input values such as correlation between different credits within the same basket. Look-back equity options and other structured options and derivatives are valued using simulation models such as the Monte Carlo technique. The input values for look-back equity options are derived from observable market indices such as interest rates, dividend yields, equity indices as well as unobservable model-specific input values such as certain volatility parameters. Level 3 methodologies are validated through periodic comparison of our fair values to broker-dealer s values.

All realized and unrealized changes in fair value of 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 such 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.

We hold externally-managed investments in the European market, as discussed in greater detail under Realized Investment Gains and Losses and General Account Investments General Account Investments Fixed Maturity Securities Asset-Backed Securities. These investments are valued using market observable inputs including benchmark yields and reported trades and are classified as Level 2 for fair value reporting. The fair value of the embedded derivatives associated with these investments increased during the second quarter of 2009 due to the impact of credit spread tightening on the underlying investments. As of June 30, 2009 the embedded derivatives remain in a loss position on a cumulative basis as a result of the stress experienced in the credit markets. However, we believe the investment fundamentals remain sound, and the ultimate value that will be realized from these investments is greater than reflected by the current fair value of the embedded derivatives.

Valuation of Variable Annuity Optional Living Benefit Features

Our liability for future policy benefits includes general account liabilities for guarantees on variable annuity contracts, including guaranteed minimum accumulation benefits (GMAB), guaranteed minimum withdrawal benefits (GMWB) and guaranteed minimum income and withdrawal benefits (GMIWB). While these guarantees primarily relate to the optional living benefit features of our Individual Annuities segment, they are also included in certain variable annuities in our International Insurance segment and certain retirement account based group variable annuities in our Retirement segment. These benefits are accounted for as embedded derivatives and are carried at fair value with changes in fair value included in Realized investment gains (losses), net.

The fair values of the GMAB, GMWB and GMIWB liabilities are calculated as the present value of future expected benefit payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally developed models with option pricing techniques. The models are based on a risk neutral valuation framework and incorporate premiums for risks inherent in valuation techniques, inputs, and the general uncertainty around the timing and amount of future cash flows. The determination of these risk premiums requires the use of management judgment. Under SFAS No. 157 we are also required to incorporate our own risk of non-performance in the valuation of the embedded derivatives associated with our optional living benefit features. Since insurance liabilities are senior to debt, we believe that reflecting the claims-paying ratings of our insurance subsidiaries in the valuation of the liability appropriately takes into consideration our own risk of non-performance. Historically, the expected cash flows were discounted using forward LIBOR interest rates, which were commonly viewed as being consistent with AA quality claims-paying ratings. However, in light of first quarter of 2009 developments, including rating agency downgrades to the claims-paying ratings of our insurance subsidiaries, we determined that forward LIBOR interest rates were no longer indicative of a market participant s view of our claims-paying ability. As a result, beginning in the first quarter of 2009, to reflect the market s perception of our non-performance risk, we incorporated an additional spread over LIBOR into the discount rate used in the valuations of the embedded derivatives associated with our optional living benefit features, thereby increasing the discount rate and reducing the fair value of the embedded derivative liabilities. The additional spread over LIBOR is determined taking into consideration publicly available information relating to the claims-paying ability of our insurance subsidiaries, as indicated by the credit spreads associated with funding agreements issued by these subsidiaries. We adjust these credit spreads to remove any liquidity risk premium. In the second quarter of 2009 we reduced the non-performance risk adjustment, resulting in a pre-tax charge of $660 million in our Individual Annuities segment and $16 million in our Retirement segment. The reduction in the non-performance risk adjustment was primarily driven by the overall decrease in the embedded derivative liabilities due to a decrease in future expected benefit payments, which resulted from an increase in policyholder account balances due to market appreciation and higher interest rates. A decrease in the additional spread over LIBOR we used in the second quarter of 2009, reflecting general credit spread tightening and our stronger capital position resulting from our equity raise, also contributed to the reduction in our market-perceived non-performance risk. The additional spread over forward LIBOR rates incorporated into the discount rate as of June 30, 2009 generally ranged from 100 to 200 basis points for the portion of the interest rate curve most relevant to these liabilities. For the first six months of 2009, our adjustment for the market s perception of our non-performance risk resulted in a $559 million pre-tax benefit to our Individual Annuities segment and a $7 million pre-tax benefit to our Retirement segment.

Other significant inputs to the valuation models include capital market assumptions, such as interest rate and implied volatility assumptions, as well as various policyholder behavior assumptions that are actuarially determined, including lapse rates, benefit utilization rates, mortality rates and withdrawal rates. These assumptions are reviewed at least annually, and updated based upon historical experience and give consideration to any observable market data, including market transactions such as acquisitions and reinsurance transactions. In the first quarter of 2009 we further updated our volatility assumptions for our Individual Annuities segment to reflect the inclusion of new market inputs. We no longer solely utilize the implied volatility of over-the-counter equity options, but a blend of these implied volatilities and an index based on historical volatilities. This update to our volatility assumption, which resulted in a reduction in the fair value of the embedded derivatives associated with our optional living benefit features, resulted in a $92 million pre-tax benefit to our Individual Annuities segment in the first six months of 2009.

Since many of the assumptions utilized in the valuation of the embedded derivatives associated with our optional living benefit features are unobservable and are considered to be significant inputs to the liability valuation, the liability included in future policy benefits has been reflected within Level 3 in our fair value hierarchy. The change in fair value of the GMAB, GMWB and GMIWB resulted in a decrease in the total liability of $1,020 million and $2,433 million for the second quarter and first six months of 2009, respectively, primarily reflecting a decrease in future expected benefit payments, resulting from an increase in policyholder account balance due to market appreciation and higher interest rates, and the update of our market-perceived non-performance risk assumption discussed above. These changes were significantly offset by increased amortization of deferred policy acquisition and other costs, and changes in value of related hedging instruments, primarily in our Individual Annuities segment as described in more detail under Results of Operations for Financial Services Businesses by Segment U.S. Retirement Solutions and Investment Management Division Individual Annuities.

Valuation of Long-Term Debt

Long-term debt carried at fair value includes funding received from the Federal Reserve Bank of New York on a non-recourse basis to finance the purchase of eligible asset-backed securities, under TALF. We value these liabilities using various inputs including the value of the collateral (eligible asset-backed securities), a comparison of the liabilities spread over LIBOR to the spreads in current TALF offerings and various other market observable and non-observable inputs which incorporate significant management judgment. As a result, the pricing of the non-recourse liabilities have been classified within Level 3 in our fair value hierarchy. The pricing of the collateral assets (other trading account assets is generally based on third party pricing information as discussed above, and included in Level 2 in our fair value hierarchy. See Note 9 to the Unaudited Interim Consolidated Financial Statements for additional information regarding our participation in TALF.

Valuation of Other Assets and Other Liabilities

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

Valuation of Trading Account Assets

Trading account assets, including trading account assets supporting insurance liabilities, consist primarily of public corporate bonds, treasuries, equity securities and derivatives whose fair values are determined consistent with similar instruments described above in Valuation of Fixed Maturity Securities, Valuation of Equity Securities and Valuation of Derivative Instruments. Other trading account assets also includes collateral assets we hold under TALF, as described above in Valuation of Long-Term Debt.

Valuation of Cash Equivalents and Short-term Investments

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

Realized Investment Gains and Losses and General Account Investments

Realized Investment Gains and Losses

Realized investment gains and losses are generated from numerous sources, including the sale of fixed maturity securities, equity securities, investments in joint ventures and limited partnerships and other types of investments, as well as adjustments to the cost basis of investments for other-than-temporary impairments. Realized investment gains and losses are also generated from prepayment premiums received on private fixed maturity securities, recoveries of principal on previously impaired securities, provisions for losses on commercial mortgage and other loans, fair value changes on commercial mortgage operations loans, fair value changes on embedded derivatives and derivatives, except those derivatives that qualify for cash flow hedge accounting treatment and those derivatives used in our capacity as a broker or dealer.

We perform quarterly impairment reviews to determine when a decline in value is other-than-temporary. In evaluating whether a decline in value is other-than-temporary, we consistently consider several factors including, but not limited to, the following: (1) the extent and duration of the decline in value; (2) the reasons for the decline in value (credit event, currency, or interest-rate related, including general credit spread widening); and (3) the financial condition of and near-term prospects of the issuer. In addition, under FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments, which we adopted effective January 1, 2009, an other-than-temporary impairment must be recognized for a debt security if 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. With regard to available-for-sale equity securities, we also consider the ability and intent to hold the investment for a period of time to allow for a recovery of value.

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When it is determined that a decline in value of an equity security is other-than-temporary, the carrying value of the equity security is impaired to its fair value, with a corresponding charge to Realized investment gains (losses), net. Under FSP FAS 115-2 and FAS 124-2, when an other-than-temporary impairment of a debt security has occurred, the amount of the other-than-temporary impairment recognized in Realized investment gains (losses), net depends on whether 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. If the debt security meets either of these two criteria, the other-than-temporary impairment recognized in earnings is equal to the entire difference between the security s amortized cost basis and its fair value at the impairment measurement date. For other-than-temporary impairments of debt securities that do not meet either of these two criteria, the net amount recognized in earnings is equal to 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. Any difference between the fair value and the net present value of the debt security at the impairment measurement date is recorded in Other comprehensive income (loss).

Prior to our adoption of FSP FAS 115-2 and FAS 124-2, we were required to recognize an other-than-temporary impairment for a debt security unless we could assert that we had both the intent and ability to hold the security for a period of time sufficient to allow for a recovery in the debt security s fair value to its amortized cost basis. In light of market conditions and liquidity concerns, beginning in the third quarter of 2008, our determinations of whether the decline in value of a debt security was other-than-temporary placed greater emphasis on our internal analysis of the underlying credit and our ability and intent to hold the investment for a period of time to allow for a recovery of value, versus the extent and duration of a decline in fair value. When we determined that there was an other-than-temporary impairment, we wrote down the carrying value of the debt security to its fair value, with a corresponding charge recorded in Realized investment gains (losses), net. For a further discussion of our policies regarding other-than-temporary declines in investment value and the related methodology for recording fixed maturity other-than-temporary impairments, see General Account Investments Fixed Maturity Securities Other-than-Temporary Impairments of Fixed Maturity Securities below. For a further discussion of our policies regarding other-than-temporary declines in investment value and the related methodology for recording equity impairments, see General Account Investments Equity Securities Other-than-Temporary Impairments of Equity Securities below.

The level of other-than-temporary impairments generally reflects economic conditions and is expected to increase when economic conditions worsen and to decrease when economic conditions improve. Historically, the causes of other-than-temporary impairments have been specific to each individual issuer and have not directly resulted in impairments to other securities within the same industry or geographic region. However, as discussed in more detail below, certain of the other-than-temporary impairments recognized for the three and six months ended June 30, 2009 and 2008 relate to asset-backed securities collateralized by sub-prime mortgages and reflect the overall deterioration of the housing market. We may realize additional credit and interest rate related losses through sales of investments pursuant to our credit risk and portfolio management objectives. In light of unprecedented market conditions, and in consideration of the potential impact on capital and tax positions, beginning in the fourth quarter of 2008 we temporarily curtailed the active trading policy of certain portfolios. In the second quarter of 2009, we resumed a more restricted active trading program in these portfolios. Other-than-temporary impairments, interest rate related losses and credit losses (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. In periods subsequent to the recognition of an other-than-temporary impairment, the impaired security is accounted for as if it had been purchased on the measurement date of the impairment. For debt securities, the discount (or reduced premium) based on the new cost basis may be accreted into net investment income, and included in adjusted operating income in future periods based on prospective changes in cash flow estimates, to reflect adjustments to the effective yield.

We require most issuers of private fixed maturity securities to pay us make-whole yield maintenance payments when they prepay the securities. Prepayments are driven by factors specific to the activities of our borrowers as well as the interest rate environment.

We use interest rate and currency swaps and other derivatives to manage interest and currency exchange rate exposures arising from mismatches between assets and liabilities, including duration mismatches. We use derivative contracts to mitigate the risk that unfavorable changes in currency exchange rates will reduce U.S. dollar equivalent earnings generated by certain of our non-U.S. businesses. We also use equity-based derivatives to hedge the equity risks embedded in some of our annuity products. Derivative contracts also include forward purchases and sales of to-be-announced mortgage-backed securities primarily related to our mortgage dollar roll program. Many of these derivative contracts do not qualify for hedge accounting, and, consequently, we recognize the changes in fair value of such contracts from period to period in current earnings, although we do not necessarily account for the related assets or liabilities the same way. Accordingly, realized investment gains and losses from our derivative activities can contribute significantly to fluctuations in net income.

Adjusted operating income excludes Realized investment gains (losses), net, (other than those representing profit or loss of certain of our businesses which primarily originate investments for sale or syndication to unrelated investors, and those associated with terminating hedges of foreign currency earnings, current period yield adjustments, or product derivatives and the effect of any related economic hedging program) and related charges and adjustments.

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 three and six months ended June 30, 2009 and 2008, respectively. For a discussion of our general account investment portfolio and related results, including overall income yield and investment income, as well as our policies regarding other-than-temporary declines in investment value and the related methodology for recording impairment charges, see General Account Investments below. For additional details regarding adjusted operating income, which is our measure of performance for the segments of our Financial Services Businesses, see Note 11 to the Unaudited Interim Consolidated Financial Statements.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in millions)			
Realized investment gains (losses), net:				
Financial Services Businesses	$ (1,418)	$ (550)	$ (838)	$ (1,352)
Closed Block Business	(857)	(348)	(1,292)	(458)
Consolidated realized investment gains (losses), net	$ (2,275)	$ (898)	$ (2,130)	$ (1,810)
Financial Services Businesses:				
Realized investment gains (losses), net				
Fixed maturity securities(1)	$ (305)	$ (490)	$ (554)	$ (888)
Equity securities	(114)	(97)	(380)	(153)
Derivative instruments(2)	(804)	88	383	(243)
Other	(195)	(51)	(287)	(68)
Total	(1,418)	(550)	(838)	(1,352)
Related adjustments(3)	546	23	(744)	160
Realized investment gains (losses), net, and related adjustments	$ (872)	$ (527)	$ (1,582)	$ (1,192)
Related charges(4)	$ (5)	$ 41	$ 39	$ 28
Closed Block Business:				
Realized investment gains (losses), net				
Fixed maturity securities(1)	$ (187)	$ (187)	$ (297)	$ (215)
Equity securities	(204)	(113)	(439)	(206)
Derivative instruments	(415)	(42)	(452)	(28)
Other	(51)	(6)	(104)	(9)

Total	$ (857)	$ (348)	$ (1,292)	$ (458)

(1) The Financial Services Businesses include $209 million and $449 million in the three and six months ended June 30, 2009, respectively, and $375 million and $665 million in the three and six months ended June 30, 2008, respectively, related to other-than-temporary impairments of asset-backed securities collateralized by sub-prime mortgages. The Closed Block Business includes $100 million and $201 million in the three and six months ended June 30, 2009, respectively, and $166 million and $279 million in the three and six months ended June 30, 2008, respectively, related to other-than-temporary impairments of asset-backed securities collateralized by sub-prime mortgages.
(2) The Financial Services Businesses include $144 million and $6 million of gains in the three and six months ended June 30, 2009, respectively, and $22 million of gains and $186 million of losses in the three and six months ended June 30, 2008, respectively, related to embedded derivatives associated with certain externally managed investments in the European market.
(3) Related adjustments include that portion of Realized investment gains (losses), net, that are included in adjusted operating income, including those pertaining to certain derivative contracts, as well as those that represent profit or loss of certain of our businesses which primarily originate investments for sale or syndication to unrelated investors. Related adjustments also include that portion of Asset management fees and other income that are excluded from adjusted operating income, including the change in value due to the impact of changes in foreign currency exchange rates during the period on certain assets and liabilities for which we economically hedge the foreign currency exposure as well as counterparty credit losses on derivative positions. See Note 11 to the Unaudited Interim Consolidated Financial Statements for additional information on these related adjustments.
(4) Reflects charges that are related to realized investment gains (losses), net, and excluded from adjusted operating income, as described more fully in Note 11 to the Unaudited Interim Consolidated Financial Statements.

2009 to 2008 Three Month Comparison

Financial Services Businesses

The Financial Services Businesses net realized investment losses in the second quarter of 2009 were $1,418 million, compared to net realized investment losses of $550 million in the second quarter of 2008.

Net realized losses on fixed maturity securities were $305 million in the second quarter of 2009, compared to net realized losses of $490 million in the second quarter of 2008, as set forth in the following table:

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
	(in millions)	
Realized investment gains (losses) Fixed Maturity Securities Financial Services Businesses		
Gross realized investment gains:		
Gross gains on sales and maturities	$ 233	$ 71
Private bond prepayment premiums	1	7
Total gross realized investment gains	234	78
Gross realized investment losses:		
Total other-than-temporary impairments	(875)	(452)
Portion of other-than-temporary impairments recognized in OCI(1)	548	
Net other-than-temporary impairments recognized in earnings	(327)	(452)
Gross losses on sales and maturities(2)	(186)	(103)
Credit related losses on sales	(26)	(13)
Total gross realized investment losses	(539)	(568)
Realized investment gains (losses), net Fixed Maturity Securities	$ (305)	$ (490)

Net gains (losses) on sales and maturities Fixed Maturity Investments(2)		$ 47	$ (32)

(1) Represents the 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 that is recorded in Other comprehensive income (loss).

(2) Amounts exclude credit related losses through sales of investments pursuant to our credit risk and portfolio management objectives.

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Net trading gains on sales and maturities of fixed maturity securities of $47 million in the second quarter of 2009 were primarily due to sales within our Individual Annuities segment and sales of government bonds in our Gibraltar Life operations. Sales of fixed maturity securities in our Individual Annuities segment were primarily due to transfers of investments out of our general account and into separate accounts relating to an automatic rebalancing element embedded in the living benefit features of some of our variable annuity products. None of the gross losses on sales and maturities in the second quarter of 2009 related to asset-backed securities collateralized by sub-prime mortgages. Gross losses on sales and maturities of fixed maturity investments of $103 million in the second quarter of 2008, were primarily related to credit spread increases in the credit markets resulting generally from concerns over the economic slowdown, and interest rates. None of the gross losses on sales and maturities in the second quarter of 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 the second quarter of 2009 and 2008.

Net realized losses on equity securities were $114 million in the second quarter of 2009, of which other-than-temporary impairments were $64 million and net trading losses on sales of equity securities were $50 million. Net trading losses were primarily due to sales within our Gibraltar Life operations. Net realized losses on equity securities were $97 million in the second quarter of 2008, of which other-than-temporary impairments were $95 million and net trading losses on sales of equity securities were $2 million. See below for additional information regarding the other-than-temporary impairments of equity securities in the second quarter of 2009 and 2008.

Net realized losses on derivatives were $804 million in the second quarter of 2009, compared to net realized gains of $88 million in the second quarter of 2008. The net derivative losses in the second quarter of 2009 primarily reflect net losses of $488 million on embedded derivatives and related hedge positions associated with certain variable annuity contracts. These losses were primarily driven by a reduction in our adjustment to reflect our market perceived non-performance risk in the fair value of the embedded derivatives. For additional information regarding the methodology used in determining the fair value of the embedded derivatives associated with our living benefit features, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Variable Annuity Optional Living Benefit Features. Also contributing to the net derivative losses in the second quarter of 2009 were net mark-to-market losses of $273 million on interest rate derivatives used to manage duration and net losses of $65 million on futures contracts used to hedge foreign equity securities. Also contributing to the net realized losses are net losses of $67 million on currency derivatives used to hedge foreign denominated investments and net losses of $62 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses due to the weakening of the U.S. dollar. Partially offsetting these losses were net mark-to-market gains of $144 million on embedded derivatives associated with certain externally managed investments in the European market and net gains of $63 million on credit derivatives as credit spreads narrowed. The net derivative gains in the second quarter of 2008 primarily reflect positive mark-to-market adjustments of $168 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses, due to the strengthening of the U.S. dollar. Also contributing to the net derivative gains in the second quarter of 2008 were net gains of $93 million on credit derivatives, primarily relating to credit derivatives used to hedge our exposures to certain monoline bond insurers. Partially offsetting these gains were net mark-to-market losses of $188 million on interest rate derivatives used to manage the duration of the fixed maturity investment portfolio, as interest rates rose. For information regarding our externally managed investments in the European market, see General Account Investments Fixed Maturity Securities Asset-Backed Securities. For information regarding our methodology for determining the fair value of our derivative instruments, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Derivative Instruments.

Net realized losses on other investments were $195 million in the second quarter of 2009, primarily related to $138 million of commercial mortgage and other loan loss reserves. The remaining $57 million of net realized losses on other investments was primarily driven by mark-to-market losses on mortgage loans within our divested commercial mortgage securitization operations and losses on real estate related joint ventures in our asset management operations, as well as other-than-temporary impairments on real estate investments. Net realized losses on other investments were $51 million in the second quarter of 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 the second quarter of 2009 we recorded other-than-temporary impairments of $418 million in earnings, compared to total other-than-temporary impairments of $553 million recorded in earnings in the second quarter of 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.

	Three Months Ended June 30,	
	2009	2008
	(in millions)	
Other-than-temporary impairments recorded in earnings Financial Services Businesses(1)		
Public fixed maturity securities	$ 267	$ 435
Private fixed maturity securities	60	17
Total fixed maturity securities	327	452
Equity securities	64	95
Other invested assets(2)	27	6
Total	$ 418	$ 553

(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 investment real estate and investments in joint ventures and partnerships.

	Three Months Ended June 30, 2009		
	Asset-Backed Securities Collateralized By Sub-Prime Mortgages	All Other Investments	Total
		(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)	$ 197	$ 71	$ 268
Due to other accounting guidelines(3)	12	47	59
Total	$ 209	$ 118	$ 327

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

(2) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.

(3) Primarily represents circumstances where we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

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	Three Months Ended June 30, 2008		
	Asset-Backed Securities Collateralized By Sub-Prime Mortgages	All Other Investments	Total
		(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)	$ 23	$ 25	$ 48
Due to other accounting guidelines(2)	352	52	404
Total	$ 375	$ 77	$ 452

(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 the second quarter of 2009 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and the manufacturing and service sectors of our corporate securities, and were primarily driven by liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers, which have caused, or we believe will lead to, a deficiency in the contractual cash flows related to the investment. Equity security other-than-temporary impairments in the second quarter of 2009 were primarily in our Japanese insurance operations equity portfolio. Other-than-temporary impairments of other investments in the second quarter of 2009 were mainly related to investment real estate. Fixed maturity other-than-temporary impairments in the second quarter of 2008 were concentrated in asset-backed securities and the finance and manufacturing sectors of our corporate securities, and were primarily driven by credit spread increases as discussed above, liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. For information regarding the fair value methodology used in determining our other-than-temporary impairments, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Fixed Maturity Securities, and Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Equity Securities.

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Closed Block Business

For the Closed Block Business, net realized investment losses in the second quarter of 2009 were $857 million, compared to net realized investment losses of $348 million in the second quarter of 2008.

Net realized losses on fixed maturity securities were $187 million in both the second quarter of 2009 and the second quarter of 2008, as set forth in the following table:

	Three Months Ended June 30,	
	2009	2008
	(in millions)	
Realized investment gains (losses) Fixed Maturity Securities Closed Block Business		
Gross realized investment gains:		
Gross gains on sales and maturities	$ 30	$ 109
Private bond prepayment premiums	2	7
Total gross realized investment gains	32	116
Gross realized investment losses:		
Total other-than-temporary impairments	(437)	(209)
Portion of other-than-temporary impairments recognized in OCI(1)	265	
Net other-than-temporary impairments recognized in earnings	(172)	(209)
Gross losses on sales and maturities(2)	(47)	(93)
Credit related losses on sales		(1)
Total gross realized investment losses	(219)	(303)
Realized investment gains (losses), net Fixed Maturity Securities	$ (187)	$ (187)
Net gains (losses) on sales and maturities Fixed Maturity Investments(2)	$ (17)	$ 16

(1) Represents the 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 that is recorded in Other comprehensive income (loss).
(2) Amounts exclude credit related losses through sales of investments pursuant to our credit risk and portfolio management objectives.

Net losses on sales and maturities of fixed maturity securities of $17 million in the second quarter of 2009 were primarily due to sales related to our total return strategy. Gross losses on sales and maturities of fixed maturity securities of $47 million in the second quarter of 2009, declined in comparison to $93 million of such losses in the second quarter of 2008, primarily due to the restriction of our active trading policies, as discussed below. There were no gross losses on sales or maturities in the second quarter of 2009 or the second quarter of 2008 related to asset-backed securities collateralized by sub-prime mortgages. 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 curtailed our active trading policy. In the second quarter of 2009, we resumed a more restricted active 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 $16 million in the second quarter of 2008 were also primarily due to sales related to our total return strategy. See General Account Investments Fixed Maturity Securities Asset-Backed Securities for additional information regarding our exposure to sub-prime mortgages. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in the second quarter of 2009 and 2008.

Net realized losses on equity securities were $204 million in the second quarter of 2009, including other-than-temporary impairments of $199 million and net trading losses on sales of equity securities of $5 million. Net realized losses on equity securities were $113 million in the second quarter of 2008, of which other-than-temporary impairments were $135 million, partially offset by net trading gains on sales of equity securities of

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$22 million. Results for both periods reflect sales pursuant to our total return strategy, which remained partially restricted for the second quarter of 2009, as discussed above. See below for additional information regarding the other-than-temporary impairments of equity securities in the second quarter of 2009 and 2008.

Net realized losses on derivatives were $415 million in the second quarter of 2009, compared to net realized losses of $42 million in the second quarter of 2008. Derivative losses in the second quarter of 2009 primarily reflect net mark-to-market losses of $307 million on interest rate derivatives used to manage duration and net losses of $119 million related to currency derivatives used to hedge foreign denominated investments. Derivative losses in the second quarter of 2008 primarily reflect net mark-to-market losses of $72 million on interest rate derivatives used to manage the duration of the fixed maturity investment portfolio partially offset by net gains of $25 million on credit derivatives used to hedge credit exposure in our investment portfolio. For information regarding our methodology for determining the fair value of our derivative instruments, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Derivative Instruments.

Net realized losses on other investments were $51 million in the second quarter of 2009, primarily related to $35 million in commercial mortgage and other loan loss reserves and $16 million of other-than-temporary impairments on joint ventures and partnerships. Net realized investment losses on other investments were $6 million in the second quarter of 2008, primarily related to 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 the second quarter of 2009 we recorded other-than-temporary impairments of $387 million in earnings, compared to other-than-temporary impairments of $349 million recorded in earnings in the second quarter of 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.

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
	(in millions)	
Other-than-temporary impairments recorded in earnings Closed Block Business(1)		
Public fixed maturity securities	$ 144	$ 187
Private fixed maturity securities	28	22
Total fixed maturity securities	172	209
Equity securities	199	135
Other invested assets(2)	16	5
Total	$ 387	$ 349

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

	Three Months Ended June 30, 2009		
	Asset-Backed Securities Collateralized by Sub-Prime Mortgages	All Other Investments	Total
		(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)	$ 99	$ 72	$ 171
Due to other accounting guidelines(3)	1		1
Total	$ 100	$ 72	$ 172

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(1) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) 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.

	Three Months Ended June 30, 2008		
	Asset-Backed Securities Collateralized by Sub-Prime Mortgages	All Other Investments	Total
		(in millions)	
Other-than-temporary impairments on fixed maturity securities recorded in earnings Closed Block Business			
Due to credit events or adverse conditions of the respective issuer(1)	$ 5	$ 17	$ 22
Due to other accounting guidelines(2)	161	26	187
Total	$ 166	$ 43	$ 209

(1) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. In certain of these circumstances the decrease in the fair value, at the time the impairment was recorded, was partially driven by general credit spread widening or liquidity concerns and we believe the recoverable value of the investment, based on the expected future cash flows, is greater than the current fair value.
(2) Includes certain circumstances relating to asset-backed securities with a credit rating below AA, where the present value of prospective cash flows of the security have declined, but we do not believe credit events or other adverse conditions of the respective issuers have caused a deficiency in the contractual cash flows related to the investment. Also includes circumstances where we cannot assert our ability or intent to hold for a period of time to allow for a recovery of value. In certain of these circumstances the decrease in fair value, at the time the impairment was recorded, was driven primarily by general credit spread widening or liquidity concerns, and we believe the recoverable value of the investment, based on the expected future cash flows, is greater than the current fair value.

Fixed maturity other-than-temporary impairments in the second quarter of 2009 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and the manufacturing and services sectors of our corporate securities and were primarily driven by liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers, which have caused, or we believe will lead to, a deficiency in the contractual cash flows related to the investment. Fixed maturity other-than-temporary impairments in the second quarter of 2008 were concentrated in asset-backed securities and the manufacturing and services sectors of our corporate securities and were primarily driven by credit spread increases as discussed above, liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers.

Equity security other-than-temporary impairments in the second quarter of 2009 and 2008 were primarily driven by overall declines in the equity markets. For information regarding the fair value methodology used in determining our other-than-temporary impairments, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Fixed Maturity Securities, and Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Equity Securities.

2009 to 2008 Six Month Comparison

Financial Services Businesses

The Financial Services Businesses net realized investment losses in the first six months of 2009 were $838 million, compared to net realized investment losses of $1,352 million in the first six months of 2008.

Net realized losses on fixed maturity securities were $554 million in the first six months of 2009, compared to net realized losses of $888 million in the first six months of 2008, as set forth in the following table:

	Six Months Ended June 30, 2009	2008
	(in millions)	
Realized investment gains (losses) Fixed Maturity Securities Financial Services Businesses		
Gross realized investment gains:		
Gross gains on sales and maturities	$ 513	$ 149
Private bond prepayment premiums	1	9
Total gross realized investment gains	514	158
Gross realized investment losses:		
Total other-than-temporary impairments	(1,957)	(840)
Portion of other-than-temporary impairments recognized in OCI(1)	1,206	
Net other-than-temporary impairments recognized in earnings	(751)	(840)
Gross losses on sales and maturities(2)	(250)	(170)
Credit related losses on sales	(67)	(36)
Total gross realized investment losses	(1,068)	(1,046)
Realized investment gains (losses), net Fixed Maturity Securities	$ (554)	$ (888)
Net gains (losses) on sales and maturities Fixed Maturity Investments(2)	$ 263	$ (21)

(1) Represents the 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 that is recorded in Other comprehensive income (loss).
(2) Amounts exclude credit related losses through sales of investments pursuant to our credit risk and portfolio management objectives.

Net trading gains on sales and maturities of fixed maturity securities of $263 million in the first six months of 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. None of the gross losses on sales and maturities in the first six months of 2009 related to asset-backed securities collateralized by sub-prime mortgages. Gross losses on sales and maturities of fixed maturity investments of $170 million in the first six months of 2008, were primarily related to credit spread increases in the credit markets resulting generally from concerns over sub-prime mortgage exposures, and interest rates. None of the gross losses on sales and maturities in the first six months of 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 the first six months of 2009 and 2008.

Net realized losses on equity securities were $380 million in the first six months of 2009, of which other-than-temporary impairments were $317 million and net trading losses on sales of equity securities were $63 million. Net trading losses were primarily due to sales within our Gibraltar Life operations. Net realized losses on

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equity securities were $153 million in the first six months of 2008, of which other-than-temporary impairments were $143 million and net trading losses on sales of equity securities were $10 million. See below for additional information regarding the other-than-temporary impairments of equity securities in the first six months of 2009 and 2008.

Net realized gains on derivatives were $383 million in the first six months of 2009, compared to net realized losses of $243 million in the first six months of 2008. The net derivative gains in the first six months of 2009 primarily reflect net gains of $858 million on embedded derivatives and related hedge positions associated with certain variable annuity contracts. These gains were driven by a market-perceived increase in our own risk of non-performance. For additional information regarding the methodology used in determining the fair value of the embedded derivatives associated with our living benefit features, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Variable Annuity Optional Living Benefit Features. Also contributing to the net derivative gains in the first six months of 2009 were net mark-to-market gains of $140 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses. Partially offsetting these gains were net mark-to-market losses of $513 million on interest rate derivatives used to manage duration, and net losses of $113 million on currency derivatives used to hedge foreign denominated investments. Net mark-to-market losses on interest rate derivatives used to manage duration includes the impact of long-duration floating-to-fixed interest rate swaps we entered into in order to add duration exposure to our Japanese investment portfolio.

Based on an evaluation of recent 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. We continue to manage the interest rate risk profile of our businesses in the context of market conditions and relative opportunities, and we expect to resume implementing strategies to lengthen the duration of our Japanese investment portfolio as our assessment of market conditions changes. The net derivative losses in the first six months of 2008 primarily reflect net mark-to-market losses of $186 million on embedded derivatives associated with certain externally managed investments in the European market and net mark-to-market losses of $88 million on interest rate derivatives used to manage the duration of the fixed maturity investment portfolio. Also contributing to the net derivative losses in 2008 were net losses of $46 million on embedded derivatives within certain domestic variable annuity contracts, net of the effect of a related derivative hedging portfolio. Partially offsetting these losses were net gains of $85 million on credit derivatives, primarily relating to credit derivatives used to hedge our exposures to certain monoline bond insurers. For information regarding our externally managed investments in the European market, see General Account Investments Fixed Maturity Securities Asset-Backed Securities. For information regarding our methodology for determining the fair value of our derivative instruments, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Derivative Instruments.

Net realized losses on other investments were $287 million in the first six months of 2009, primarily related to $211 million of commercial mortgage and other loan loss reserves. The remaining $76 million of net realized losses on other investments was primarily driven by mark-to-market losses on mortgage loans within our divested commercial mortgage securitization operations and losses on real estate related joint ventures in our asset management operations, as well as other-than-temporary impairments on real estate investments. Net realized losses on other investments were $68 million in the first six months of 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 the first six months of 2009 we recorded other-than-temporary impairments of $1,096 million in earnings, compared to total other-than-temporary impairments of $990 million recorded in earnings in the first six months of 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.

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
	(in millions)	
Other-than-temporary impairments recorded in earnings Financial Services Businesses(1)		
Public fixed maturity securities	$ 654	$ 812
Private fixed maturity securities	97	28
Total fixed maturity securities	751	840
Equity securities	317	143
Other invested assets(2)	28	7
Total	$ 1,096	$ 990

(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 investment real estate and investments in joint ventures and partnerships.

	Six Months Ended June 30, 2009		
	Asset-Backed Securities Collateralized By Sub-Prime Mortgages	All Other Investments	Total
		(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)	$ 437	$ 235	$ 672
Due to other accounting guidelines(3)	12	67	79
Total	$ 449	$ 302	$ 751

(1) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.
(3) Primarily represents circumstances where we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

	Six Months Ended June 30, 2008		
	Asset-Backed Securities Collateralized By Sub-Prime Mortgages	All Other Investments	Total
		(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)	$ 69	$ 43	$ 112
Due to other accounting guidelines(2)	596	132	728
Total	$ 665	$ 175	$ 840

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(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 the first six months of 2009 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and the manufacturing and services sectors of our corporate securities, and were primarily driven by liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers, which have caused, or we believe will lead to, a deficiency in the contractual cash flows related to the investment. Equity security other-than-temporary impairments in the first six months of 2009 were primarily driven by overall declines in the Japanese equity markets and losses in our mutual fund shares representing our interest in high yield bond funds of certain of our separate account investments supporting corporate owned life insurance. Fixed maturity other-than-temporary impairments in the first six months of 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 as discussed above, liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. For information regarding the fair value methodology used in determining our other-than-temporary impairments, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Fixed Maturity Securities, and Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Equity Securities.

Closed Block Business

For the Closed Block Business, net realized investment losses in the first six months of 2009 were $1,292 million, compared to net realized investment losses of $458 million in the first six months of 2008.

Net realized losses on fixed maturity securities were $297 million in the first six months of 2009, compared to net realized losses of $215 million in the first six months of 2008, as set forth in the following table:

	Six Months Ended June 30, 2009	2008
	(in millions)	
Realized investment gains (losses) Fixed Maturity Securities Closed Block Business		
Gross realized investment gains:		
Gross gains on sales and maturities	$ 113	$ 325
Private bond prepayment premiums	2	8
Total gross realized investment gains	115	333
Gross realized investment losses:		
Total other-than-temporary impairments	(1,210)	(360)
Portion of other-than-temporary impairments recognized in OCI(1)	857	
Net other-than-temporary impairments recognized in earnings	(353)	(360)

Gross losses on sales and maturities(2)	(54)	(161)
Credit related losses on sales	(5)	(27)
Total gross realized investment losses	(412)	(548)
Realized investment gains (losses), net Fixed Maturity Securities	$ (297)	$ (215)
Net gains (losses) on sales and maturities Fixed Maturity Investments(2)	$ 59	$ 164

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(1) Represents the 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 that is recorded in Other comprehensive income (loss).
(2) Amounts exclude credit related losses through sales of investments pursuant to our credit risk and portfolio management objectives.

Net gains on sales and maturities of fixed maturity securities of $59 million in the first six months of 2009 were primarily due to sales related to our total return strategy. Gross losses on sales and maturities of fixed maturity securities of $54 million in the first six months of 2009, declined in comparison to $161 million of such losses in the first six months of 2008, primarily due to the restriction of our active trading policies, as discussed below. There were no gross losses on sales or maturities in the first six months of 2009 or the first six months of 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. In the second quarter of 2009, we resumed a more restricted active 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 $164 million in the first six months of 2008 were also primarily due to sales related to our total return strategy. See General Account Investments Fixed Maturity Securities Asset-Backed Securities for additional information regarding our exposure to sub-prime mortgages. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in the first six months of 2009 and 2008.

Net realized losses on equity securities of $439 million in the first six months of 2009 were comprised entirely of other-than-temporary impairments. Net realized losses on equity securities were $206 million in the first six months of 2008, of which other-than-temporary impairments were $187 million, and net trading losses on sales of equity securities were $19 million. Net trading losses for the first six months of 2008 reflect sales pursuant to our active management strategy, which was curtailed or partially restricted for the first six months of 2009, as discussed above. See below for additional information regarding the other-than-temporary impairments of equity securities in the first six months of 2009 and 2008.

Net realized losses on derivatives were $452 million in the first six months of 2009, compared to net realized losses of $28 million in the first six months of 2008. Derivative losses in the first six months of 2009 primarily reflect net mark-to-market losses of $394 million on interest rate derivatives used to manage duration and net losses of $82 million related to currency derivatives used to hedge foreign denominated investments. Derivative losses in the first six months of 2008 primarily reflect net mark-to-market losses of $84 million on currency derivatives used to hedge foreign investments, partially offset by gains of $44 million on credit derivatives used to hedge credit exposure in our investment portfolio. For information regarding our methodology for determining the fair value of our derivative instruments, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Derivative Instruments.

Net realized losses on other investments were $104 million in the first six months of 2009, primarily related to $68 million of commercial mortgage loan loss reserves and $38 million of other-than-temporary impairments on joint ventures and partnerships. Net realized investment losses on other investments were $9 million in the first six months of 2008, primarily related to 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.

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During the first six months of 2009 we recorded other-than-temporary impairments of $830 million in earnings, compared to other-than-temporary impairments of $553 million recorded in earnings in the first six months of 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.

	Six Months Ended June 30, 2009	2008
	(in millions)	
Other-than-temporary impairments recorded in earnings Closed Block Business(1)		
Public fixed maturity securities	$ 321	$ 336
Private fixed maturity securities	32	24
Total fixed maturity securities	353	360
Equity securities	439	187
Other invested assets(2)	38	6
Total	$ 830	$ 553

(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.

	Six Months Ended June 30, 2009		
	Asset-Backed Securities Collateralized by Sub-Prime Mortgages	All Other Investments	Total
		(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)	$ 200	$ 150	$ 350
Due to other accounting guidelines(3)	1	2	3
Total	$ 201	$ 152	$ 353

(1) Excludes the portion of other-than-temporary impairments recorded in Other comprehensive income (loss), representing any difference between the fair value of the impaired debt security and the net present value of its projected future cash flows at the time of impairment.
(2) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. The amount of the impairment recorded in earnings is the difference between the amortized cost of the debt security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment.
(3) Primarily represents circumstances where we intend to sell the security or more likely than not will be required to sell the security before recovery of its amortized cost basis.

	Six Months Ended June 30, 2008		
	Asset-Backed Securities Collateralized by Sub-Prime Mortgages	All Other Investments	Total
		(in millions)	

Other-than-temporary impairments on fixed maturity securities recorded in earnings Closed Block Business			
Due to credit events or adverse conditions of the respective issuer(1)	$ 22	$ 25	$ 47
Due to other accounting guidelines(2)	257	56	313
Total	$ 279	$ 81	$ 360

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(1) Represents circumstances where we believe credit events or other adverse conditions of the respective issuers have caused, or will lead to, a deficiency in the contractual cash flows related to the investment. In certain of these circumstances the decrease in the fair value, at the time the impairment was recorded, was partially driven by general credit spread widening or liquidity concerns and we believe the recoverable value of the investment, based on the expected future cash flows, is greater than the current fair value.

(2) Includes certain circumstances relating to asset-backed securities with a credit rating below AA, where the present value of prospective cash flows of the security have declined, but we do not believe credit events or other adverse conditions of the respective issuers have caused a deficiency in the contractual cash flows related to the investment. Also includes circumstances where we cannot assert our ability or intent to hold for a period of time to allow for a recovery of value. In certain of these circumstances the decrease in fair value, at the time the impairment was recorded, was driven primarily by general credit spread widening or liquidity concerns, and we believe the recoverable value of the investment, based on the expected future cash flows, is greater than the current fair value.

Fixed maturity other-than-temporary impairments in the first six months of 2009 were concentrated in asset-backed securities collateralized by sub-prime mortgages, and the manufacturing and services sectors of our corporate securities and were primarily driven by liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers, which have caused, or we believe will lead to, a deficiency in the contractual cash flows related to the investment. Fixed maturity other-than-temporary impairments in the first six months of 2008 were concentrated in asset-backed securities and the services, manufacturing and finances sectors of our corporate securities and were primarily driven by credit spread increases as discussed above, liquidity concerns, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers.

Equity security other-than-temporary impairments in the first six months of 2009 and 2008 were primarily driven by overall declines in the equity markets. For information regarding the fair value methodology used in determining our other-than-temporary impairments, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Fixed Maturity Securities, and Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Equity Securities.

General Account Investments

Portfolio Composition

Our investment portfolio consists of public and private fixed maturity securities, commercial mortgage and other loans, equity securities and other invested assets. The composition of our general account reflects, within the discipline provided by our risk management approach, our need for competitive results and the selection of diverse investment alternatives available primarily through our Asset Management segment. The size of our portfolio enables us to invest in asset classes that may be unavailable to the typical investor.

Our total general account investments were $235.7 billion and $230.4 billion as of June 30, 2009 and December 31, 2008, respectively, which are apportioned between the Financial Services Businesses and the Closed Block Business. Total general account investments attributable to the Financial Services Businesses were $176.2 billion and $171.6 billion as of June 30, 2009 and December 31, 2008, respectively, while total general account investments attributable to the Closed Block Business were $59.6 billion and $58.7 billion as of June 30, 2009 and December 31, 2008, respectively. The following tables set forth the composition of the investments of our general account as of the dates indicated. As of June 30, 2009, 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.

	June 30, 2009			
	Financial Services Businesses	Closed Block Business	Total	% of Total
	($ in millions)			
Fixed Maturities:				
Public, available for sale, at fair value	$ 98,478	$ 27,863	$ 126,341	53.6%
Public, held to maturity, at amortized cost	4,023		4,023	1.7
Private, available for sale, at fair value	18,853	11,966	30,819	13.1
Private, held to maturity, at amortized cost	912		912	0.4
Trading account assets supporting insurance liabilities, at fair value	14,766		14,766	6.3
Other trading account assets, at fair value	1,998	165	2,163	0.9
Equity securities, available for sale, at fair value	3,391	2,513	5,904	2.5
Commercial mortgage and other loans, at book value	21,942	8,733	30,675	13.0
Policy loans, at outstanding balance	4,413	5,443	9,856	4.2
Other long-term investments(1)	2,781	1,546	4,327	1.8
Short-term investments(2)	4,604	1,347	5,951	2.5
Total general account investments	176,161	59,576	235,737	100.0%
Invested assets of other entities and operations(3)	7,912		7,912	
Total investments	$ 184,073	$ 59,576	$ 243,649	

	December 31, 2008			
	Financial Services Businesses	Closed Block Business	Total	% of Total
	($ in millions)			
Fixed Maturities:				
Public, available for sale, at fair value	$ 98,725	$ 27,424	$ 126,149	54.8%
Public, held to maturity, at amortized cost	3,002		3,002	1.3
Private, available for sale, at fair value	18,568	11,479	30,047	13.0
Private, held to maturity, at amortized cost	806		806	0.4
Trading account assets supporting insurance liabilities, at fair value	13,875		13,875	6.0
Other trading account assets, at fair value	728	120	848	0.4
Equity securities, available for sale, at fair value	3,659	2,400	6,059	2.6
Commercial mortgage and other loans, at book value	22,092	8,748	30,840	13.4
Policy loans, at outstanding balance	4,280	5,423	9,703	4.2
Other long-term investments(1)	3,035	1,629	4,664	2.0
Short-term investments(2)	2,874	1,484	4,358	1.9
Total general account investments	171,644	58,707	230,351	100.0%
Invested assets of other entities and operations(3)	11,674		11,674	
Total investments	$ 183,318	$ 58,707	$ 242,025	

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Explanation of Responses:

(1) Other long-term investments consist of real estate and non-real estate related investments in joint ventures (other than our investment in operating joint ventures, which includes our investment in Wachovia Securities) and partnerships, investment real estate held through direct ownership and other miscellaneous investments.
(2) Short-term investments consist primarily of money market funds with virtually no sub-prime exposure.
(3) Includes invested assets of brokerage, trading and banking operations, real estate and relocation services, and asset management operations. Excludes assets of our asset management operations managed for third parties and those assets classified as Separate account assets on our balance sheet. For additional information regarding these investments, see Invested Assets of Other Entities and Operations below.

The increase in general account investments attributable to the Financial Services Businesses in the first six months of 2009 was primarily a result of a net increase in fair value driven by credit spread tightening, the investment of proceeds from our debt and equity issuances in the second quarter of 2009 and portfolio growth as a result of reinvestment of net investment income, partially offset by the impact of foreign currency. The increase in general account investments attributable to the Closed Block Business in the first six months of 2009 was primarily due to a net increase in market value and portfolio growth as a result of reinvestment of net investment income, partially offset by a decrease in leverage.

We have substantial insurance operations in Japan, with 35% of our Financial Services Businesses general account investments relating to our Japanese insurance operations as of both June 30, 2009 and December 31, 2008. Total general account investments related to our Japanese insurance operations were $61.0 billion and $59.8 billion as of June 30, 2009 and December 31, 2008, respectively. As of June 30, 2009 the average duration of our general account investment portfolio related to our Japanese insurance operations, including the impact of derivatives, is approximately 11 years. The increase in general account investments related to our Japanese insurance operations in the first six months of 2009 is primarily attributable to the acquisition of Yamato Life, and portfolio growth as the result of business inflows, partially offset by the impact of changes in foreign currency exchange rates and net declines in market value. For additional information regarding our acquisition of Yamato Life see Note 3 to the Unaudited Interim Consolidated Financial Statements. The following table sets forth the composition of the investments of our Japanese insurance operations general account as of the dates indicated.

	June 30, 2009	December 31, 2008
	(in millions)	
Fixed Maturities:		
Public, available for sale, at fair value	$ 43,374	$ 42,223
Public, held to maturity, at amortized cost	4,023	3,002
Private, available for sale, at fair value	2,863	2,803
Private, held to maturity, at amortized cost	912	806
Trading account assets supporting insurance liabilities, at fair value	1,138	1,077
Other trading account assets, at fair value	433	519
Equity securities, available for sale, at fair value	1,441	2,071
Commercial mortgage and other loans, at book value	3,561	3,373
Policy loans, at outstanding balance	1,614	1,547
Other long-term investments(1)	1,352	2,143
Short-term investments	337	266
Total Japanese general account investments(2)	$ 61,048	$ 59,830

(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.

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

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in yen denominated investments, our Japanese insurance operations also hold significant investments denominated in U.S. dollars. As of June 30, 2009, our Japanese insurance operations had $12.5 billion of investments denominated in U.S. dollars, including $1.2 billion that were hedged to yen through third party derivative contracts and $6.7 billion that support liabilities denominated in U.S. dollars. As of December 31, 2008, our Japanese insurance operations had $12.3 billion of investments denominated in U.S. dollars, including $1.1 billion that were hedged to yen through third party derivative contracts and $6.0 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.

Investment Results

The following tables set forth the income yield and investment income, excluding realized investment gains (losses), for each major investment category of our general account for the periods indicated.

	Three Months Ended June 30, 2009					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	4.51%	$ 1,405	5.89%	$ 595	4.84%	$ 2,000
Trading account assets supporting insurance liabilities	4.96	177			4.96	177
Equity securities	6.30	56	3.22	22	4.97	78
Commercial mortgage and other loans	5.68	310	6.40	138	5.89	448
Policy loans	5.11	55	6.42	87	5.84	142
Short-term investments and cash equivalents	0.46	14	2.55	7	0.61	21
Other investments	3.03	34	(7.74)	(36)	(0.08)	(2)
Gross investment income before investment expenses	4.43	2,051	5.42	813	4.67	2,864
Investment expenses	(0.14)	(49)	(0.21)	(35)	(0.15)	(84)
Investment income after investment expenses	4.29%	2,002	5.21%	778	4.52%	2,780
Investment results of other entities and operations(2)		55				55
Total investment income		$ 2,057		$ 778		$ 2,835

	Three Months Ended June 30, 2008					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	4.74%	$ 1,398	6.19%	$ 664	5.12%	$ 2,062
Trading account assets supporting insurance liabilities	5.18	188			5.18	188
Equity securities	5.09	60	4.05	33	4.66	93
Commercial mortgage and other loans	5.87	312	6.33	134	6.00	446
Policy loans	5.02	52	6.24	83	5.70	135
Short-term investments and cash equivalents	2.52	67	9.49	21	2.89	88
Other investments	3.23	27	1.03	4	2.60	31
Gross investment income before investment expenses	4.80	2,104	6.01	939	5.11	3,043
Investment expenses	(0.14)	(80)	(0.23)	(68)	(0.16)	(148)

Investment income after investment expenses	4.66%	2,024	5.78%	871	4.95%	2,895
Investment results of other entities and operations(2)		131				131
Total investment income		$ 2,155		$ 871		$ 3,026

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(1) Yields are annualized, for interim periods, and based on quarterly averages calculated using beginning and end of period balances. Yields are based on 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 securities lending activity are calculated net of corresponding liabilities and rebate expenses. Yields exclude investment income on assets other than those included in invested assets of the Financial Services Businesses. 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 net investment income yield on our general account investments after investment expenses, excluding realized investment gains (losses), was 4.52% and 4.95% for the three months ended June 30, 2009 and 2008, respectively. The net investment income yield attributable to the Financial Services Businesses was 4.29% for the three months ended June 30, 2009, compared to 4.66% for the three months ended June 30, 2008. See below for a discussion of the change in the Financial Services Businesses yields.

The net investment income yield attributable to the Closed Block Business was 5.21% for the three months ended June 30, 2009 compared to 5.78% for the three months ended June 30, 2008. The decrease was primarily due to the impact of lower interest rates on floating rate investments due to rate resets and lower income from investments in joint ventures and limited partnerships, driven by lower appreciation and losses on the underlying assets.

	Six Months Ended June 30, 2009					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	4.60%	$ 2,861	5.99%	$ 1,205	4.94%	$ 4,066
Trading account assets supporting insurance liabilities	5.05	354			5.05	354
Equity securities	6.00	113	2.98	42	4.71	155
Commercial mortgage and other loans	5.70	618	6.43	276	5.91	894
Policy loans	5.06	108	6.37	171	5.79	279
Short-term investments and cash equivalents	0.71	43	4.69	24	0.99	67
Other investments	3.79	80	(8.69)	(80)	0.01	
Gross investment income before investment expenses	4.54	4,177	5.47	1,638	4.77	5,815
Investment expenses	(0.14)	(103)	(0.22)	(73)	(0.16)	(176)
Investment income after investment expenses	4.40%	4,074	5.25%	1,565	4.61%	5,639
Investment results of other entities and operations(2)		51				51
Total investment income		$ 4,125		$ 1,565		$ 5,690

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	Six Months Ended June 30, 2008					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	4.82%	$ 2,778	6.32%	$ 1,372	5.22%	$ 4,150
Trading account assets supporting insurance liabilities	5.19	373			5.19	373
Equity securities	4.62	106	3.49	57	4.15	163
Commercial mortgage and other loans	5.91	606	6.53	268	6.08	874
Policy loans	5.08	103	6.26	166	5.75	269
Short-term investments and cash equivalents	3.24	166	12.19	56	3.63	222
Other investments	3.98	63	3.47	24	3.83	87
Gross investment income before investment expenses	4.89	4,195	6.16	1,943	5.22	6,138
Investment expenses	(0.14)	(160)	(0.24)	(166)	(0.16)	(326)
Investment income after investment expenses	4.75%	4,035	5.92%	1,777	5.06%	5,812
Investment results of other entities and operations(2)		240				240
Total investment income		$ 4,275		$ 1,777		$ 6,052

(1) Yields are annualized, for interim periods, and based on quarterly averages calculated using beginning and end of period balances. Yields are based on 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 securities lending activity are calculated net of corresponding liabilities and rebate expenses. Yields exclude investment income on assets other than those included in invested assets of the Financial Services Businesses. 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 net investment income yield on our general account investments after investment expenses, excluding realized investment gains (losses), was 4.61% and 5.06% for the six months ended June 30, 2009 and 2008, respectively. The net investment income yield attributable to the Financial Services Businesses was 4.40% for the six months ended June 30, 2009, compared to 4.75% for the six months ended June 30, 2008. See below for a discussion of the change in the Financial Services Businesses yields.

The net investment income yield attributable to the Closed Block Business was 5.25% for the six months ended June 30, 2009 compared to 5.92% for the six months ended June 30, 2008. The decrease was primarily due to the impact of lower interest rates on floating rate investments due to rate resets and lower income from investments in joint ventures and limited partnerships, driven by lower appreciation and losses on the underlying assets.

The following tables set forth the income yield and investment income, excluding realized investment gains (losses), for each major investment category of the Financial Services Business general account, excluding the Japanese operations portion of the general account which is presented separately below, for the periods indicated.

	Three Months Ended June 30, 2009		Three Months Ended June 30, 2008	
	Yield(1)	Amount	Yield(1)	Amount
		($ in millions)		
Fixed maturities	5.62%	$ 1,041	5.83%	$ 1,057
Trading account assets supporting insurance liabilities	5.27	174	5.52	185
Equity securities	10.49	45	8.09	42
Commercial mortgage and other loans	5.85	269	6.04	275
Policy loans	5.86	41	5.59	40
Short-term investments and cash equivalents	0.53	13	2.32	58
Other investments	1.67	10	(0.29)	(2)
Gross investment income before investment expenses	5.18	1,593	5.54	1,655
Investment expenses	(0.13)	(27)	(0.11)	(48)
Investment income after investment expenses	5.05%	1,566	5.43%	1,607
Investment results of other entities and operations(2)		55		131
Total investment income		$ 1,621		$ 1,738

(1) Yields are annualized, for interim periods, and based on quarterly averages calculated using beginning and end of period balances. Yields are based on 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 securities lending activity are calculated net of corresponding liabilities and rebate expenses. Yields exclude investment income on assets other than those included in invested assets of the Financial Services Businesses. 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 net investment income yield attributable to the non-Japanese operations portion of the Financial Services Businesses portfolio was 5.05% for the three months ended June 30, 2009, compared to 5.43% for the three months ended June 30, 2008. The decrease was primarily due to a decrease in fixed maturity yields as a result of lower interest rates on floating rate investments due to rate resets and lower income from short-term investments as a result of lower short-term rates.

	Six Months Ended June 30, 2009		Six Months Ended June 30, 2008	
	Yield(1)	Amount	Yield(1)	Amount
		($ in millions)		
Fixed maturities	5.71%	$ 2,118	5.98%	$ 2,137
Trading account assets supporting insurance liabilities	5.30	343	5.46	362
Equity securities	9.85	84	7.29	74
Commercial mortgage and other loans	5.85	536	6.11	536
Policy loans	5.75	79	5.62	79
Short-term investments and cash equivalents	0.74	38	3.27	154
Other investments	2.89	30	1.24	11
Gross investment income before investment expenses	5.30	3,228	5.70	3,353
Investment expenses	(0.13)	(52)	(0.11)	(105)

Investment income after investment expenses	5.17%	3,176	5.59%	3,248
Investment results of other entities and operations(2)		51		240
Total investment income		$ 3,227		$ 3,488

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(1) Yields are annualized, for interim periods, and based on quarterly averages calculated using beginning and end of period balances. Yields are based on 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 securities lending activity are calculated net of corresponding liabilities and rebate expenses. Yields exclude investment income on assets other than those included in invested assets of the Financial Services Businesses. 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 net investment income yield attributable to the non-Japanese operations portion of the Financial Services Businesses portfolio was 5.17% for the six months ended June 30, 2009, compared to 5.59% for the six months ended June 30, 2008. The decrease was primarily due to a decrease in fixed maturity yields as a result of lower interest rates on floating rate investments due to rate resets and lower income from short-term investments as a result of lower short-term rates.

The following tables set forth the income yield and investment income, excluding realized investment gains (losses), for each major investment category of our Japanese operations general account for the periods indicated.

	Three Months Ended June 30, 2009		**Three Months Ended June 30, 2008**	
	Yield(1)	**Amount**	**Yield(1)**	**Amount**
		($ in millions)		
Fixed maturities	2.88%	$ 364	3.00%	$ 341
Trading account assets supporting insurance liabilities	1.14	3	1.28	3
Equity securities	2.47	11	2.75	18
Commercial mortgage and other loans	4.80	41	4.81	37
Policy loans	3.78	14	3.71	12
Short-term investments and cash equivalents	0.13	1	4.22	9
Other investments	4.88	24	8.36	29
Gross investment income before investment expenses	2.94	458	3.22	449
Investment expenses	(0.15)	(22)	(0.19)	(32)
Total investment income	2.79%	$ 436	3.03%	$ 417

(1) Yields are annualized, for interim periods, and based on quarterly averages calculated using beginning and end of period balances. Yields are based on 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 securities lending activity are calculated net of corresponding liabilities and rebate expenses. Yields exclude investment income on assets other than those included in invested assets of the Financial Services Businesses. Prior periods yields are presented on a basis consistent with the current period presentation.

The net investment income yield attributable to the Japanese insurance operations portfolios was 2.79% for the three months ended June 30, 2009, compared to 3.03% for the three months ended June 30, 2008. The decrease in yield on the Japanese insurance portfolio is primarily attributable to a lower interest rate environment both in the U.S. and Japan which impacts reinvestment rates and lower equity security dividends. 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 three months ended June 30, 2009 and 2008 was approximately $9.8 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.

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	Six Months Ended June 30, 2009		Six Months Ended June 30, 2008	
	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)			
Fixed maturities	2.96%	$ 743	2.93%	$ 641
Trading account assets supporting insurance liabilities	2.00	11	1.98	11
Equity securities	2.82	29	2.52	32
Commercial mortgage and other loans	4.85	82	4.72	70
Policy loans	3.84	29	3.84	24
Short-term investments and cash equivalents	0.55	5	2.94	12
Other investments	4.66	50	8.28	52
Gross investment income before investment expenses	3.05	949	3.13	842
Investment expenses	(0.16)	(51)	(0.19)	(55)
Total investment income	2.89%	$ 898	2.94%	$ 787

(1) Yields are annualized, for interim periods, and based on quarterly averages calculated using beginning and end of period balances. Yields are based on 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 securities lending activity are calculated net of corresponding liabilities and rebate expenses. Yields exclude investment income on assets other than those included in invested assets of the Financial Services Businesses. Prior periods yields are presented on a basis consistent with the current period presentation.

The net investment income yield attributable to the Japanese insurance operations portfolios was 2.89% for the six months ended June 30, 2009, compared to 2.94% for the six months ended June 30, 2008. The decrease in yield on the Japanese insurance portfolio is primarily attributable to 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 six months ended June 30, 2009 and 2008 was approximately $9.7 billion and $9.4 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

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.

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

	June 30, 2009				December 31, 2008			
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	$ 18,988	$ 563	$ 1,188	$ 18,363	$ 19,018	$ 435	$ 2,098	$ 17,355
Utilities	10,875	340	506	10,709	10,770	265	1,017	10,018
Finance	9,427	100	876	8,651	9,793	124	1,084	8,833
Services	8,489	149	887	7,751	8,930	102	1,409	7,623
Energy	4,594	139	313	4,420	4,592	75	579	4,088
Transportation	3,339	81	159	3,261	3,387	74	239	3,222
Retail and Wholesale	3,202	64	227	3,039	3,377	42	388	3,031
Other	921	7	111	817	1,000	26	117	909
Total Corporate Securities	59,835	1,443	4,267	57,011	60,867	1,143	6,931	55,079
Foreign Government(3)	35,133	1,125	139	36,119	32,986	2,338	62	35,262
Residential Mortgage-Backed	10,149	308	109	10,348	10,688	336	114	10,910
Asset-Backed Securities	9,982	92	2,441	7,633	10,863	90	2,467	8,486
Commercial Mortgage-Backed	7,945	96	800	7,241	8,506	3	1,657	6,852
U.S. Government	3,121	365	49	3,437	3,185	750	12	3,923
State & Municipal	456	25	1	480	597	24	8	613
Total(4)(5)	$ 126,621	$ 3,454	$ 7,806	$ 122,269	$ 127,692	$ 4,684	$ 11,251	$ 121,125

(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 $139 million of gross unrealized gains and $136 million of gross unrealized losses as of June 30, 2009, compared to $157 million of gross unrealized gains and $133 million of gross unrealized losses as of December 31, 2008 on securities classified as held to maturity, which are not reflected in other comprehensive income.
(3) As of June 30, 2009 and December 31, 2008, based on amortized cost, 87% represent Japanese government bonds held by our Japanese insurance operations, with no other individual country representing more than 5% of the balance.
(4) 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.

(5) 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.

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As a percentage of amortized cost, fixed maturity investments attributable to the Financial Services Businesses as of June 30, 2009 consist primarily of 28% foreign government securities, 15% manufacturing sector, 9% public utility sector, and 8% asset-backed securities compared to 26% foreign government securities, 15% manufacturing sector, 9% asset-backed securities and 8% public utility sector as of December 31, 2008.

The gross unrealized losses related to our fixed maturity portfolio attributable to the Financial Services Businesses of $7.806 billion as of June 30, 2009 decreased compared to $11.251 billion as of December 31, 2008, as credit spreads tightened across most asset classes. The gross unrealized losses as of June 30, 2009 were concentrated primarily in asset-backed and commercial mortgage-backed securities and the manufacturing, service and finance sectors of our corporate securities. The gross unrealized losses as of December 31, 2008 were concentrated primarily in asset-backed and commercial mortgage-backed securities and the manufacturing and service sectors of our corporate securities. The gross unrealized gains related to our fixed maturity portfolio attributable to the Financial Services Businesses decreased from $4.684 billion as of December 31, 2008 to $3.454 billion as of June 30, 2009, primarily due to the impact of changes in foreign currency exchange rates and an increase in risk-free rates.

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

	June 30, 2009				December 31, 2008			
Industry(1)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
				(in millions)				
Corporate Securities:								
Manufacturing	$ 8,674	$ 245	$ 491	$ 8,428	$ 8,791	$ 188	$ 905	$ 8,074
Utilities	5,623	162	259	5,526	5,608	126	526	5,208
Services	4,233	87	352	3,968	4,467	69	590	3,946
Finance	3,149	40	173	3,016	2,455	32	232	2,255
Energy	2,068	50	99	2,019	1,963	16	229	1,750
Retail and Wholesale	1,652	47	79	1,620	1,716	32	149	1,599
Transportation	1,480	37	102	1,415	1,413	23	163	1,273
Other	1			1				
Total Corporate Securities	26,880	668	1,555	25,993	26,413	486	2,794	24,105
Asset-Backed Securities	5,197	29	1,675	3,551	5,737	44	1,690	4,091
Commercial Mortgage-Backed	3,789	9	342	3,456	3,858	2	672	3,188
U.S. Government	3,115	117	131	3,101	2,998	603	1	3,600
Residential Mortgage-Backed	2,862	105	73	2,894	3,110	100	109	3,101
Foreign Government(2)	544	44	22	566	582	44	49	577
State & Municipal	258	12	2	268	240	5	4	241
Total (3)	$ 42,645	$ 984	$ 3,800	$ 39,829	$ 42,938	$ 1,284	$ 5,319	$ 38,903

(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) As of June 30, 2009 and December 31, 2008, based on amortized cost, no individual foreign country represents more than 9% of the balance.
(3) The table above excludes fixed maturity securities classified as trading. See Other Trading Account Assets for additional information.

As a percentage of amortized cost, fixed maturity investments attributable to the Closed Block Business as of June 30, 2009 consist primarily of 20% manufacturing sector, 13% utilities sector, 12% asset-backed securities, 10% services sector, 9% commercial mortgage-backed securities and 7% U.S. Government securities compared to 20% manufacturing sector, 13% asset-backed securities, 13% utilities sector, 10% services sector, 9% commercial mortgage-backed securities and 7% residential mortgage-backed securities as of December 31, 2008.

The gross unrealized losses related to our fixed maturity portfolio attributable to the Closed Block Business decreased from $5.319 billion as of December 31, 2008 to $3.800 billion as of June 30, 2009, primarily due to credit spread tightening across most asset classes. The gross unrealized losses as of both June 30, 2009 and December 31, 2008, were concentrated primarily in asset-backed securities, commercial mortgage-backed securities and the manufacturing, services, and utility sectors of our corporate securities. The gross unrealized gains related to our fixed maturity portfolio attributable to the Closed Block Business decreased from $1.284 billion as of December 31, 2008 to $984 million as of June 30, 2009, primarily due to an increase in risk-free rates.

Asset-Backed Securities

As of June 30, 2009, included within asset-backed securities attributable to the Financial Services Businesses on an amortized cost basis is $4.956 billion ($2.870 billion fair value) of 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, 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. 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

Vintage	June 30, 2009 Lowest Rating Agency Rating AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2008
				(in millions)			
Collateralized by sub-prime mortgages:							
Enhanced short-term portfolio(1)							
2009	$	$	$	$	$	$	$
2008							
2007	27	14	16	12	421	490	548
2006	76	142	76	139	692	1,125	1,538
2005	5	8			10	23	35
2004 & Prior							
Total enhanced short-term portfolio	108	164	92	151	1,123	1,638	2,121
All other portfolios							
2009							
2008							
2007	2	15			302	319	268
2006	20	143	92	89	1,023	1,367	1,265
2005		80	89	93	274	536	565
2004 & Prior	71	424	308	172	121	1,096	1,137
Total all other portfolios	93	662	489	354	1,720	3,318	3,235
Total collateralized by sub-prime mortgages(2)	201	826	581	505	2,843	4,956	5,356
Other asset-backed securities:							
Externally managed investments in the European market(3)			409	487	16	912	934
Collateralized by auto loans	602	50	14	62	12	740	1,492
Collateralized by credit cards	437		1	662		1,100	760
Collateralized by non-sub-prime mortgages	995	47	8	37	18	1,105	1,051
Other asset-backed securities(4)	543	132	58	114	322	1,169	1,270
Total asset-backed securities(5)	$ 2,778	$ 1,055	$ 1,071	$ 1,867	$ 3,211	$ 9,982	$ 10,863

Asset-Backed Securities at Fair Value Financial Services Businesses

	June 30, 2009						
	Lowest Rating Agency Rating						
Vintage	AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2008
				(in millions)			
Collateralized by sub-prime mortgages:							
Enhanced short-term portfolio(1)							
2009	$	$	$	$	$	$	$
2008							
2007	24	5	13	9	254	305	405
2006	72	113	58	109	481	833	1,284
2005	4	7			7	18	31
2004 & Prior							
Total enhanced short-term portfolio	100	125	71	118	742	1,156	1,720
All other portfolios							
2009							
2008							
2007	2	5			153	160	158
2006	16	69	37	36	519	677	709
2005		50	40	39	119	248	324
2004 & Prior	46	254	161	92	76	629	673
Total all other portfolios	64	378	238	167	867	1,714	1,864
Total collateralized by sub-prime mortgages	164	503	309	285	1,609	2,870	3,584
Other asset-backed securities:							
Externally managed investments in the European market(3)			414	511	17	942	941
Collateralized by auto loans	609	50	13	57	7	736	1,421
Collateralized by credit cards	471		1	576		1,048	454
Collateralized by non-sub-prime mortgages	997	46	7	31	14	1,095	1,073
Other asset-backed securities(4)	475	111	48	99	209	942	1,013
Total asset-backed securities(5)	$ 2,716	$ 710	$ 792	$ 1,559	$ 1,856	$ 7,633	$ 8,486

(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 $5.0 billion of asset-backed securities collateralized by sub-prime mortgages as of June 30, 2009 are $0.6 billion of securities collateralized by second-lien exposures.

(3) As of June 30, 2009, includes the $(600) million impact of the bifurcated embedded derivative described below.

(4) As of June 30, 2009, includes collateralized debt obligations with amortized cost of $124 million and fair value of $71 million, with less than 1% secured by sub-prime mortgages. Also includes asset-backed securities collateralized by education loans, equipment leases, timeshares, aircraft, and franchises.

(5) 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 June 30, 2009. 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

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independent evaluation of the underlying collateral and securitization structure, including any guarantees from monoline bond insurers. The following tables set forth the percentage, based on amortized cost, of our asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses by lowest rating agency rating, as of the dates indicated.

Asset-Backed Securities Collateralized by Sub-prime Mortgages Financial Services Businesses

	Lowest Rating Agency Rating				
	AAA	**AA**	**A**	**BBB**	**BB and below**
December 31, 2008	22%	22%	13%	22%	21%
March 31, 2009	6%	18%	14%	18%	44%
June 30, 2009	4%	17%	12%	10%	57%

The changes in the ratings above reflect the impact of both paydowns in the senior tranches and increased rating agency downgrade activity generally consistent with the continued collateral deterioration.

On an amortized cost basis, asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses decreased from $5.356 billion as of December 31, 2008 to $4.956 billion as of June 30, 2009, primarily reflecting principal paydowns and other-than-temporary impairments recognized, partially offset by the increase in amortized cost resulting from our adoption of FSP FAS 115-2 and FAS 124-2 on January 1, 2009. For additional information regarding our adoption of this FSP, see Note 2 to the Unaudited Interim Consolidated Financial Statements. Gross unrealized losses related to our asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses were $2.088 billion as of June 30, 2009 and $1.781 billion as of December 31, 2008. 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, including the impact of our determination that the market for these securities was an inactive market, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities.

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 32% as of June 30, 2009. 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 June 30, 2009, based on amortized cost, approximately 78% 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 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 $4.956 billion of asset-backed securities collateralized by sub-prime mortgages attributable to the Financial Services Businesses as of June 30, 2009 were $1.340 billion of securities, on an amortized cost basis, that represent front pay or second pay securities, depending on the overall structure of the securities.

The $912 million of externally managed investments in the European market, included above in asset-backed securities of the Financial Services Businesses as of June 30, 2009, reflects our investment in medium term notes that are collateralized by investment portfolios primarily consisting of European fixed income securities, including 44% European corporate and bank bonds, 22% bank capital, 11% European asset-backed

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securities, and 23% other, as well as derivatives and varying degrees of leverage. Our investment in these notes further diversifies our credit risk. As of June 30, 2009 none of the underlying investments are securities collateralized by U.S. sub-prime mortgages, and 86% of the underlying investments are rated investment grade. The notes have a stated coupon and provide a return based on the return of the underlying portfolios and the level of leverage. The notes are accounted for as available for sale fixed maturity securities with bifurcated embedded derivatives (total return swaps). Changes in the value of the fixed maturity securities are reported in Stockholders Equity under the heading Accumulated Other Comprehensive Income. Changes in the market value of the embedded total return swaps are included in current period earnings in Realized investment gains (losses), net. As discussed further in Note 11 to the Unaudited Interim Consolidated Financial Statements, any changes in market value of the embedded total return swaps are excluded from adjusted operating income. The fair value of the embedded derivatives associated with these investments increased during the second quarter of 2009 due to the impact of credit spread tightening on the underlying investments. As of June 30, 2009 the embedded derivatives remain in a $600 million loss position on a cumulative basis as a result of the stress experienced in the credit markets. However, we believe the investment fundamentals remain sound, and the ultimate value that will be realized from these investments is greater than reflected by the current fair value of the embedded derivatives. In the second quarter of 2008, we began restructuring certain of these investments, which are now included as direct holdings in our portfolio, primarily classified within Other trading account assets, at fair value.

As of June 30, 2009, included within asset-backed securities attributable to the Closed Block Business on an amortized cost basis is $3.977 billion ($2.433 billion fair value) of securities collateralized by sub-prime mortgages. See above for a description of asset-backed securities collateralized by sub-prime mortgages. 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).

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Asset-Backed Securities at Amortized Cost Closed Block Business

Vintage	June 30, 2009 Lowest Rating Agency Rating AAA	AA	A	BBB	BB and below (in millions)	Total Amortized Cost	Total December 31, 2008
Collateralized by sub-prime mortgages:							
Enhanced short-term portfolio(1)							
2009	$	$	$	$	$	$	$
2008							
2007	23	14	16	13	282	348	386
2006	78	147	78	134	491	928	1,354
2005	5	8			8	21	31
2004 & Prior							
Total enhanced short-term portfolio	106	169	94	147	781	1,297	1,771
All other portfolios							
2009							
2008							
2007	29	10			305	344	318
2006	100		39	63	956	1,158	1,116
2005	21	158	72	61	103	415	442
2004 & Prior	31	438	101	128	65	763	791
Total all other portfolios	181	606	212	252	1,429	2,680	2,667
Total collateralized by sub-prime mortgages(2)	287	775	306	399	2,210	3,977	4,438
Other asset-backed securities:							
Collateralized by credit cards	131			429		560	453
Collateralized by auto loans	124	3		23		150	270
Externally managed investments in the European market(3)			78	77		155	148
Collateralized by education loans	119	20			6	145	192
Other asset-backed securities(4)	89	7	22	21	71	210	236
Total asset-backed securities	$ 750	$ 805	$ 406	$ 949	$ 2,287	$ 5,197	$ 5,737

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Asset-Backed Securities at Fair Value Closed Block Business

Vintage	June 30, 2009 Lowest Rating Agency Rating AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2008
	(in millions)						
Collateralized by sub-prime mortgages:							
Enhanced short-term portfolio(1)							
2009	$	$	$	$	$	$	$
2008							
2007	20	5	13	9	174	221	290
2006	74	116	60	105	338	693	1,143
2005	5	7			5	17	27
2004 & Prior							
Total enhanced short-term portfolio	99	128	73	114	517	931	1,460
All other portfolios							
2009							
2008							
2007	16	4			161	181	206
2006	44		23	32	525	624	623
2005	15	110	38	23	42	228	267
2004 & Prior	19	262	65	82	41	469	478
Total all other portfolios	94	376	126	137	769	1,502	1,574
Total collateralized by sub-prime mortgages	193	504	199	251	1,286	2,433	3,034
Other asset-backed securities:							
Collateralized by credit cards	135			361		496	242
Collateralized by auto loans	125	3		20		148	254
Externally managed investments in the European market(3)			87	89		176	186
Collateralized by education loans	118	11			5	134	178
Other asset-backed securities(4)	78	5	21	18	42	164	197
Total asset-backed securities(5)	$ 649	$ 523	$ 307	$ 739	$ 1,333	$ 3,551	$ 4,091

(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 $4.0 billion of asset-backed securities collateralized by sub-prime mortgages as of June 30, 2009 are $0.3 billion of securities collateralized by second-lien exposures.

(3) As of June 30, 2009, includes the $(126) million impact of the embedded derivative described below.

(4) As of June 30, 2009, includes collateralized debt obligations with amortized cost of $16 million and fair value of $10 million, with none secured by sub-prime mortgages. Also includes asset-backed securities collateralized by equipment leases, timeshares, aircraft and franchises.

(5) Excluded from the table above are asset-backed securities classified as other trading and carried at fair value. For additional information see Other Trading Account Assets.

The tables above provide ratings as assigned by nationally recognized rating agencies as of June 30, 2009. 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. The following tables set forth the percentage, based on amortized cost, of our asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business by lowest rating agency rating, as of the dates indicated.

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Asset-Backed Securities Collateralized by Sub-prime Mortgages Closed Block Business

	Lowest Rating Agency Rating				
	AAA	AA	A	BBB	BB and below
December 31, 2008	26%	25%	10%	18%	21%
March 31, 2009	9%	20%	9%	13%	49%
June 30, 2009	7%	19%	8%	10%	56%

The changes in the ratings above reflect the impact of both paydowns in the senior tranches and increased rating agency downgrade activity generally consistent with the continued collateral deterioration.

On an amortized cost basis, asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business decreased from $4.438 billion as of December 31, 2008 to $3.977 billion as of June 30, 2009, 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 $1.544 billion as of June 30, 2009 and $1.405 billion as of December 31, 2008. 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, including the impact of our determination that the market for these securities was an inactive market, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities.

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 33% as of June 30, 2009. 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 June 30, 2009, based on amortized cost, approximately 83% 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 48% 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 $3.977 billion of asset-backed securities collateralized by sub-prime mortgages attributable to the Closed Block Business as of June 30, 2009 were $1.335 billion of securities, on an amortized cost basis, that represent front pay or second pay securities, depending on the overall structure of the securities.

The $155 million of externally managed investments in the European market, included in asset-backed securities of the Closed Block Business as of June 30, 2009, reflects our investment in medium term notes that are collateralized by investment portfolios primarily consisting of European fixed income securities, including 44% European corporate and bank bonds, 22% bank capital, 11% European asset-backed securities, and 23% other, as well as derivatives and varying degrees of leverage. Our investment in these notes further diversifies our credit risk. As of June 30, 2009 none of the underlying investments are securities collateralized by U.S. sub-prime mortgages, and 86% of the underlying investments are rated investment grade. The notes have a stated coupon and provide a return based on the return of the underlying portfolios and the level of leverage. The notes are accounted for as available for sale fixed maturity securities with bifurcated embedded derivatives (total return swaps). Changes in the value of the fixed maturity securities are reported in Stockholders Equity under the heading Accumulated Other Comprehensive Income. Changes in the market value of the embedded total return swaps are included in current period earnings in Realized investment gains (losses), net. The fair value of the embedded derivatives associated with these investments increased during the second quarter of 2009 due to the impact of credit spread tightening on the underlying investments. As of June 30, 2009 the embedded derivatives remain in a $126 million loss position on a cumulative basis as a result of the stress experienced in the credit markets. However, we believe the investment fundamentals remain sound, and the ultimate value that will be realized from these investments is greater than reflected by the current fair value of the embedded derivatives.

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Residential Mortgage-Backed Securities

As of June 30, 2009, on an amortized cost basis, $10.061 billion of the residential mortgage-backed securities in the Financial Services Businesses were publicly traded agency pass-through securities, which are supported by implicit or explicit government guarantees and have credit ratings of AA or above. Of these pass-through securities, $8.163 billion are supported by the U.S. government, and $1.898 billion are supported by foreign governments. Collateralized mortgage obligations, including approximately $43 million secured by ALT-A mortgages, represented the remaining $88 million of residential mortgage-backed securities (and less than 1% of total fixed maturities in the Financial Services Businesses), and 54% have credit ratings of A or above, while the remaining 46% have credit ratings of B or higher.

As of June 30, 2009, on an amortized cost basis, $2.525 billion of the residential mortgage-backed securities in the Closed Block Business were publicly traded agency pass-through securities, which are supported by implicit or explicit U.S. government guarantees and have credit ratings of AAA. Collateralized mortgage obligations, including approximately $133 million secured by ALT-A mortgages, represented the remaining $337 million of residential mortgage-backed securities (and 1% of total fixed maturities in the Closed Block Business), and 37% have AAA credit ratings, 2% have AA credit ratings, 18% have A credit ratings, 4% have BBB credit ratings, 30% have BB credit ratings and the remaining 9% have B credit ratings.

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. Difficult conditions in the global financial markets and the overall economic downturn continue to put additional pressure on these fundamentals through rising vacancies, falling rents and falling property values. In addition, we have recognized 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

	June 30, 2009 Lowest Rating Agency Rating						
Vintage	AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2008
				(in millions)			
2009	$	$	$	$	$	$	$
2008	175		30	98	26	329	341
2007	1,555		3	53	84	1,695	1,842
2006	3,115			6	4	3,125	3,389
2005	1,580			12	18	1,610	1,585
2004 & Prior	1,062	88	22	10	4	1,186	1,349
Total commercial mortgage-backed securities(1)(2)	$ 7,487	$ 88	$ 55	$ 179	$ 136	$ 7,945	$ 8,506

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Explanation of Responses:

Commercial Mortgage-Backed Securities at Fair Value Financial Services Businesses

	June 30, 2009 Lowest Rating Agency Rating						
Vintage	**AAA**	**AA**	**A**	**BBB**	**BB and below**	**Total Fair Value**	**Total December 31, 2008**
				(in millions)			
2009	$	$	$	$	$	$	$
2008	140		28	92	23	283	293
2007	1,397		3	46	66	1,512	1,393
2006	2,797			5	7	2,809	2,695
2005	1,496			12	21	1,529	1,288
2004 & Prior	1,013	72	15	5	3	1,108	1,183
Total commercial mortgage-backed securities(1)	$ 6,843	$ 72	$ 46	$ 160	$ 120	$ 7,241	$ 6,852

(1) 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.

(2) Included in the table above as of June 30, 2009 are commercial mortgage-backed securities collateralized by Non-U.S. properties with amortized cost of $11 million in AAA, none in AA, $33 million in A, $168 million in BBB and $132 million in BB and below.

The weighted average estimated subordination percentage of our commercial mortgage-backed securities attributable to the Financial Services Businesses was 33% as of June 30, 2009. 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 June 30, 2009, based on amortized cost, approximately 93% of the commercial mortgage-backed securities attributable to the Financial Services Businesses have estimated credit subordination percentages of 20% or more, and 78% 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 June 30, 2009, by rating and vintage.

U.S. Commercial Mortgage-Backed Securities Subordination Percentages by Rating and Vintage Financial Services Businesses

	June 30, 2009 Lowest Rating Agency Rating				
Vintage	**AAA**	**AA**	**A**	**BBB**	**BB and below**
2009	%	%	%	%	%
2008	32				
2007	31				
2006	31				
2005	29				
2004 & Prior	36	29	13	8	20

Non-U.S. Commercial Mortgage-Backed Securities Subordination Percentages by Rating and Vintage Financial Services Businesses

	June 30, 2009 Lowest Rating Agency Rating				
Vintage	**AAA**	**AA**	**A**	**BBB**	**BB and below**
2009	%	%	%	%	%
2008			6	7	7
2007			11	4	3
2006				11	1
2005				13	3
2004 & Prior					

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 cashflows (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 cashflows. 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 cashflows (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 cashflows. 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

	June 30, 2009							
	Super Senior AAA Structures			Other AAA Structures				
Vintage	Super Senior (shorter duration tranches)	Super Senior (longest duration tranche)	Mezzanine	Junior	Other Senior	Other Subordinate	Other	Total AAA Securities at Amortized Cost
	(in millions)							
2009	$	$	$	$	$	$	$	$
2008	175							175
2007	1,555							1,555
2006	2,059	1,046					10	3,115
2005	690	868					22	1,580
2004 & Prior	58	198			534	254	18	1,062
Total	$ 4,537	$ 2,112	$	$	$ 534	$ 254	$ 50	$ 7,487

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

	June 30, 2009						
	Lowest Rating Agency Rating						
Vintage	AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2008
	(in millions)						
2009	$	$	$	$	$	$	$
2008	10					10	10
2007	439		19			458	437
2006	857					857	882
2005	1,275					1,275	1,282
2004 & Prior	1,108	37	43	1		1,189	1,247
Total commercial mortgage-backed securities	$ 3,689	$ 37	$ 62	$ 1	$	$ 3,789	$ 3,858

Commercial Mortgage-Backed Securities at Fair Value Closed Block Business

	June 30, 2009						
	Lowest Rating Agency Rating						
Vintage	AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2008
	(in millions)						
2009	$	$	$	$	$	$	$
2008	9					9	9

2007	391		4			395	326
2006	751					751	689
2005	1,177					1,177	1,051
2004 & Prior	1,062	28	34			1,124	1,113
Total commercial mortgage-backed securities	$ 3,390	$ 28	$ 38	$	$	$ 3,456	$ 3,188

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The weighted average estimated subordination percentage of commercial mortgage-backed securities attributable to the Closed Block Business was 32% as of June 30, 2009. See above for a definition of this percentage. As of June 30, 2009, based on amortized cost, approximately 93% of the commercial mortgage-backed securities attributable to the Closed Block Business have estimated credit subordination percentages of 20% or more, and 60% 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 June 30, 2009, by rating and vintage.

Commercial Mortgage-Backed Securities -Subordination Percentages by Rating and Vintage Closed Block Business

	June 30, 2009				
	Lowest Rating Agency Rating				
Vintage	AAA	AA	A	BBB	BB and below
2009	%	%	%	%	%
2008	28				
2007	30		5		
2006	29				
2005	28				
2004 & Prior	34	19	26	9	

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

	June 30, 2009							
	Super Senior AAA Structures				Other AAA Structures			
Vintage	Super Senior (shorter duration tranches)	Super Senior (longest duration tranche)	Mezzanine	Junior	Other Senior	Other Subordinate	Other	Total AAA Securities at Amortized Cost
					(in millions)			
2009	$	$	$	$	$	$	$	$
2008	10							10
2007	439							439
2006	698	131					28	857
2005	1,047	227					1	1,275
2004 & Prior	48	14			927	112	7	1,108
Total	$ 2,242	$ 372	$	$	$ 927	$ 112	$ 36	$ 3,689

Fixed Maturity Securities Credit Quality

The Securities Valuation Office, or SVO, of the NAIC, evaluates the investments of insurers for regulatory reporting purposes and assigns fixed maturity securities to one of six categories called NAIC Designations. NAIC designations of 1 or 2 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 are referred to as below investment grade, which include securities rated Ba1 or lower by Moody s and BB+ or lower by Standard & Poor s. 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 non-U.S. dollar denominated investments of our Japanese insurance companies are based on ratings assigned by 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 below investment grade fixed maturities attributable to the Financial Services Businesses totaled \$10.6 billion, or 8%, of the total fixed maturities as of June 30, 2009 and \$9.0 billion, or 7%, of the total fixed maturities as of December 31, 2008. Below investment grade fixed maturities represented 30% and 19% of the gross unrealized losses attributable to the Financial Services Businesses as of June 30, 2009 and December 31, 2008, respectively. The increase in below investment grade fixed maturity securities is primarily due to credit migration on securities held resulting from slowing economic conditions, rather than new originations or purchases.

The amortized cost of our public and private below investment grade fixed maturities attributable to the Closed Block Business totaled \$7.6 billion, or 18%, of the total fixed maturities as of June 30, 2009 and \$6.6 billion, or 15%, of the total fixed maturities as of December 31, 2008. Below investment grade fixed maturities represented 40% of the gross unrealized losses attributable to the Closed Block Business as of June 30, 2009, compared to 29% of gross unrealized losses as of December 31, 2008.

Public Fixed Maturities Credit Quality

The following table sets forth our public fixed maturity portfolios by NAIC rating attributable to the Financial Services Businesses as of the dates indicated.

Public Fixed Maturity Securities Financial Services Businesses

(1)(2) NAIC Designation	Rating Agency Equivalent	June 30, 2009 Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value	December 31, 2008 Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value
					(in millions)				
1	Aaa, Aa, A	$ 84,551	$ 2,858	$ 2,825	$ 84,584	$ 85,474	$ 4,228	$ 4,425	$ 85,277
2	Baa	14,209	272	1,383	13,098	15,573	163	2,893	12,843
	Subtotal Investment Grade	98,760	3,130	4,208	97,682	101,047	4,391	7,318	98,120
3	Ba	3,534	24	767	2,791	3,009	16	800	2,225
4	B	1,693	7	465	1,235	1,639	2	565	1,076
5	C and lower	861	8	360	509	379	14	123	270
6	In or near default	466	15	197	284	36	4	4	36
	Subtotal Below Investment Grade(4)	6,554	54	1,789	4,819	5,063	36	1,492	3,607
Total Public Fixed Maturities		$ 105,314	$ 3,184	$ 5,997	$ 102,501	$ 106,110	$ 4,427	$ 8,810	$ 101,727

(1) Reflects equivalent ratings for investments of the international insurance operations that are not rated by U.S. insurance regulatory authorities.
(2) Includes, as of June 30, 2009 and December 31, 2008, respectively, 14 securities with amortized cost of $4 million (fair value, $1 million) and 13 securities with amortized cost of $3 million (fair value, $2 million) that have been categorized based on expected NAIC designations pending receipt of SVO ratings.
(3) Includes $130 million of gross unrealized gains and $130 million gross unrealized losses as of June 30, 2009, compared to $132 million of gross unrealized gains and $132 million of gross unrealized losses as of December 31, 2008 on securities classified as held to maturity that are not reflected in other comprehensive income.
(4) On an amortized cost basis, as of June 30, 2009 includes $261 million in emerging markets securities and $180 million in securitized bank loans.

The following table sets forth our public fixed maturity portfolios by NAIC rating attributable to the Closed Block Business as of the dates indicated.

Public Fixed Maturity Securities Closed Block Business

(1) NAIC Designation	Rating Agency Equivalent	June 30, 2009 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	December 31, 2008 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
					(in millions)				
1	Aaa, Aa, A	$ 19,212	$ 531	$ 1,297	$ 18,446	$ 20,231	$ 977	$ 2,040	$ 19,168
2	Baa	6,053	125	536	5,642	6,555	59	1,169	5,445
	Subtotal Investment Grade	25,265	656	1,833	24,088	26,786	1,036	3,209	24,613
3	Ba	2,331	17	381	1,967	2,209	8	538	1,679
4	B	1,600	9	446	1,163	1,324	2	453	873
5	C and lower	663	10	246	427	349	6	111	244
6	In or near default	342	11	135	218	15	1	1	15
	Subtotal Below Investment Grade(2)	4,936	47	1,208	3,775	3,897	17	1,103	2,811

Total Public Fixed Maturities	$ 30,201	$ 703	$ 3,041	$ 27,863	$ 30,683	$ 1,053	$ 4,312	$ 27,424

(1) Includes, as of June 30, 2009 and December 31, 2008, respectively, 18 securities with amortized cost of $32 million (fair value, $18 million) and 18 securities with amortized cost of $30 million (fair value, $20 million) that have been categorized based on expected NAIC designations pending receipt of SVO ratings.

(2) On an amortized cost basis, as of June 30, 2009, includes $634 million in securitized bank loans and $383 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 rating attributable to the Financial Services Businesses as of the dates indicated.

Private Fixed Maturity Securities Financial Services Businesses

(1)(2) NAIC Designation	Rating Agency Equivalent	June 30, 2009 Amortized Cost	June 30, 2009 Gross Unrealized Gains(3)	June 30, 2009 Gross Unrealized Losses(3)	June 30, 2009 Fair Value	December 31, 2008 Amortized Cost	December 31, 2008 Gross Unrealized Gains(3)	December 31, 2008 Gross Unrealized Losses(3)	December 31, 2008 Fair Value
					(in millions)				
1	Aaa, Aa, A	$ 6,263	$ 100	$ 261	$ 6,102	$ 6,284	$ 112	$ 408	$ 5,988
2	Baa	10,962	121	1,011	10,072	11,341	92	1,310	10,123
	Subtotal Investment Grade	17,225	221	1,272	16,174	17,625	204	1,718	16,111
3	Ba	2,477	23	288	2,212	2,405	24	381	2,048
4	B	944	9	146	807	1,037	14	244	807
5	C and lower	385	5	69	321	283	7	59	231
6	In or near default	276	12	34	254	232	8	39	201
	Subtotal Below Investment Grade(4)	4,082	49	537	3,594	3,957	53	723	3,287
Total Private Fixed Maturities		$ 21,307	$ 270	$ 1,809	$ 19,768	$ 21,582	$ 257	$ 2,441	$ 19,398

(1) Reflects equivalent ratings for investments of the international insurance operations that are not rated by U.S. insurance regulatory authorities.

(2) Includes, as of June 30, 2009 and December 31, 2008, respectively, 116 securities with amortized cost of $4,564 million (fair value, $4,642 million) and 129 securities with amortized cost of $1,211 million (fair value, $1,052 million) that have been categorized based on expected NAIC designations pending receipt of SVO ratings.

(3) Includes $9 million of gross unrealized gains and $6 million of gross unrealized losses as of June 30, 2009, compared to $25 million of gross unrealized gains and $1 million of gross unrealized losses as of December 31, 2008 on securities classified as held to maturity that are not reflected in other comprehensive income.

(4) On an amortized cost basis, as of June 30, 2009 includes $957 million in securitized bank loans and $207 million in commercial asset finance securities.

The following table sets forth our private fixed maturity portfolios by NAIC rating attributable to the Closed Block Business as of the dates indicated.

Private Fixed Maturity Securities Closed Block Business

(1) NAIC Designation	Rating Agency Equivalent	June 30, 2009 Amortized Cost	June 30, 2009 Gross Unrealized Gains	June 30, 2009 Gross Unrealized Losses	June 30, 2009 Fair Value	December 31, 2008 Amortized Cost	December 31, 2008 Gross Unrealized Gains	December 31, 2008 Gross Unrealized Losses	December 31, 2008 Fair Value
					(in millions)				
1	Aaa, Aa, A	$ 3,156	$ 137	$ 87	$ 3,206	$ 3,379	$ 116	$ 115	$ 3,380

2	Baa	6,603	115	350	6,368	6,175	86	460	5,801
	Subtotal Investment Grade	9,759	252	437	9,574	9,554	202	575	9,181
3	Ba	1,631	25	151	1,505	1,651	15	241	1,425
4	B	759	1	112	648	652	9	141	520
5	C and lower	165		34	131	158	3	39	122
6	In or near default	130	3	25	108	240	2	11	231
	Subtotal Below Investment Grade(2)	2,685	29	322	2,392	2,701	29	432	2,298
Total Private Fixed Maturities		$ 12,444	$ 281	$ 759	$ 11,966	$ 12,255	$ 231	$ 1,007	$ 11,479

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(1) Includes, as of June 30, 2009 and December 31, 2008, respectively, 67 securities with amortized cost of $1,004 million (fair value, $937 million) and 87 securities with amortized cost of $1,908 million (fair value, $1,797 million) that have been categorized based on expected NAIC designations pending receipt of SVO ratings.
(2) On an amortized cost basis, as of June 30, 2009, includes $541 million in securitized bank loans and $346 million in commercial asset finance securities.

Corporate Securities Credit Quality

The following table sets forth both our public and private corporate securities by NAIC rating attributable to the Financial Services Businesses as of the dates indicated.

Corporate Securities Financial Services Businesses

(1)		June 30, 2009				December 31, 2008			
NAIC Designation	Rating Agency Equivalent	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value
					(in millions)				
1	Aaa, Aa, A	$ 29,312	$ 1,036	$ 1,151	$ 29,197	$ 29,537	$ 874	$ 1,753	$ 28,658
2	Baa	22,956	339	2,033	21,262	23,777	198	3,420	20,555
	Subtotal Investment Grade	52,268	1,375	3,184	50,459	53,314	1,072	5,173	49,213
3	Ba	4,816	27	618	4,225	4,685	29	983	3,731
4	B	1,898	9	296	1,611	2,257	15	641	1,631
5	C and lower	559	13	115	457	433	20	119	334
6	In or near default	294	19	54	259	178	7	15	170
	Subtotal Below Investment Grade	7,567	68	1,083	6,552	7,553	71	1,758	5,866
Total Corporate Securities		$ 59,835	$ 1,443	$ 4,267	$ 57,011	$ 60,867	$ 1,143	$ 6,931	$ 55,079

(1) Reflects equivalent ratings for investments of the international insurance operations that are not rated by U.S. insurance regulatory authorities.

The following table sets forth our corporate securities by NAIC rating attributable to the Closed Block Business as of the dates indicated.

Corporate Securities Closed Block Business

		June 30, 2009				December 31, 2008			
NAIC Designation	Rating Agency Equivalent	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
					(in millions)				

1	Aaa, Aa, A	$ 9,919	$ 388	$ 264	$ 10,043	$ 9,382	$ 329	$ 435	$ 9,276
2	Baa	11,645	221	659	11,207	11,379	120	1,161	10,338
	Subtotal Investment Grade	21,564	609	923	21,250	20,761	449	1,596	19,614
3	Ba	3,183	31	290	2,924	3,344	19	589	2,774
4	B	1,569	8	222	1,355	1,721	11	484	1,248
5	C and lower	383	7	83	307	335	5	114	226
6	In or near default	181	13	37	157	252	2	11	243
	Subtotal Below Investment Grade	5,316	59	632	4,743	5,652	37	1,198	4,491
Total Corporate Securities		$ 26,880	$ 668	$ 1,555	$ 25,993	$ 26,413	$ 486	$ 2,794	$ 24,105

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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 majority of 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. As of June 30, 2009 and December 31, 2008, we had $1.168 billion and $1.222 billion, respectively, in outstanding notional amounts of credit derivative contracts where we have sold credit protection. The Financial Services Businesses had $1.104 billion and $1.161 billion of outstanding notional amounts as of June 30, 2009 and December 31, 2008, respectively. The Closed Block Business had $64 million and $61 million of outstanding notional amounts, as of June 30, 2009 and December 31, 2008, respectively. 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 $3 million and $5 million for the three and six months ended June 30, 2009, respectively, and $4 million and $7 million for the three and six months ended June 30, 2008, respectively, and is included in adjusted operating income as an adjustment to Realized investment gains (losses), net.

The following table sets 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

		June 30, 2009					
		Single Name		First to Default Basket(1)		Total	
NAIC Designation	Rating Agency Equivalent	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
		(in millions)					
1	Aaa, Aa, A	$ 295	$ 1	$ 182	$ (8)	$ 477	$ (7)
2	Baa	25		290	(27)	315	(27)
	Subtotal Investment Grade	320	1	472	(35)	792	(34)
3	Ba			262	(35)	262	(35)
4	B						
5	C and lower			50	(9)	50	(9)
6	In or near default						
	Subtotal Below Investment Grade			312	(44)	312	(44)

Total	$ 320	$ 1	$ 784	$ (79)	$ 1,104	$ (78)

Credit Derivatives, Sold Protection Financial Services Businesses

		December 31, 2008					
		Single Name		First to Default Basket(1)		Total	
NAIC Designation	Rating Agency Equivalent	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
		(in millions)					
1	Aaa, Aa, A	$ 320	$ (9)	$ 207	$ (19)	$ 527	$ (28)
2	Baa			517	(84)	517	(84)
	Subtotal Investment Grade	320	(9)	724	(103)	1,044	(112)
3	Ba			15	(2)	15	(2)
4	B						
5	C and lower			102	(32)	102	(32)
6	In or near default						
	Subtotal Below Investment Grade			117	(34)	117	(34)
Total		$ 320	$ (9)	$ 841	$ (137)	$ 1,161	$ (146)

(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.

The following table sets forth our exposure where we have sold credit protection through credit derivatives in the Closed Block Business portfolios by NAIC rating of the underlying credits as of the dates indicated.

Credit Derivatives, Sold Protection Closed Block Business

		June 30, 2009					
		Single Name		First to Default Basket(1)		Total	
NAIC Designation	Rating Agency Equivalent	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
		(in millions)					
1	Aaa, Aa, A	$ 23	$	$ 6	$	$ 29	$
2	Baa	10		25		35	
	Subtotal Investment Grade	33		31		64	
3	Ba						
4	B						
5	C and lower						
6	In or near default						
	Subtotal Below Investment Grade						
Total		$ 33	$	$ 31	$	$ 64	$

Credit Derivatives, Sold Protection Closed Block Business

		December 31, 2008					
		Single Name		First to Default Basket(1)		Total	
NAIC Designation	Rating Agency Equivalent	Notional	Fair Value	Notional	Fair Value	Notional	Fair Value
		(in millions)					
1	Aaa, Aa, A	$ 20	$ (1)	$ 6	$	$ 26	$ (1)
2	Baa	5		25	(1)	30	(1)
	Subtotal Investment Grade	25	(1)	31	(1)	56	(2)
3	Ba						
4	B						
5	C and lower	5				5	
6	In or near default						
	Subtotal Below Investment Grade	5				5	
Total		$ 30	$ (1)	$ 31	$ (1)	$ 61	$ (2)

(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.

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 June 30, 2009 and December 31, 2008, the Financial Services Businesses had $1.575 billion and $1.069 billion of outstanding notional amounts, reported at fair value as a $155 million asset and a $189 million asset, respectively. As of June 30, 2009 and December 31, 2008, the Closed Block Business had $480 million and $309 million of outstanding notional amounts, reported at fair value as an asset of $80 million and $64 million, respectively. The premium paid for the credit derivatives we purchase attributable to the Financial Services Businesses was $12 million and $19 million for the three and six months ended June 30, 2009, respectively, and $6 million and $9 million for the three and six months ended June 30, 2008, respectively, and is included in adjusted operating income as an adjustment to Realized investment gains (losses), net. See Note 14 to the Unaudited Interim 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

	June 30, 2009		December 31, 2008	
	Amortized Cost(1)	Gross Unrealized Losses(1)	Amortized Cost(1)	Gross Unrealized Losses(1)
	(in millions)			

Less than three months	$ 1,629	$ 298	$ 9,612	$ 2,605
Three months or greater but less than six months	1,811	735	13,481	4,623
Six months or greater but less than nine months	2,636	849	1,082	488
Nine months or greater but less than twelve months	4,896	1,773	272	159
Greater than twelve months	1,037	485		
Total	$ 12,009	$ 4,140	$ 24,447	$ 7,875

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(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 month count was reset back to historical unrealized loss month counts for securities impacted by the adoption of FSP FAS 115-2 and FAS 124-2.

The gross unrealized losses were primarily concentrated in asset-backed securities as of June 30, 2009 and December 31, 2008. 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 $4.140 billion as of June 30, 2009 includes $1.932 billion 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 June 30, 2009 also includes $201 million of gross unrealized losses on securities with amortized cost of $275 million where the estimated fair value had declined and remained below amortized cost by 50% or more, of which, $7 million was included in the three months or greater but less than six months timeframe, $41 million was included in the six months or greater but less than nine months timeframe, $28 million was included in the nine months or greater but less than twelve months timeframe and $125 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 cashflows 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 June 30, 2009, we do not intend to sell the security and it is not more likely than not that we will be required to sell the security 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

	June 30, 2009		December 31, 2008	
	Amortized Cost(1)	Gross Unrealized Losses(1)	Amortized Cost(1)	Gross Unrealized Losses(1)
	(in millions)			
Less than three months	$ 592	$ 106	$ 3,377	$ 928
Three months or greater but less than six months	1,333	543	6,159	2,338
Six months or greater but less than nine months	868	290	662	325
Nine months or greater but less than twelve months	2,594	998	25	21
Greater than twelve months	564	236		
Total	$ 5,951	$ 2,173	$ 10,223	$ 3,612

(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 month count was reset back to historical unrealized loss month counts for securities impacted by the adoption of FSP FAS 115-2 and FAS 124-2.

The gross unrealized losses were primarily concentrated in asset-backed securities as of June 30, 2009 and December 31, 2008. 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 $2.173 billion as of June 30, 2009 includes $1.407 billion 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 June 30, 2009 does not includes any gross unrealized losses on securities where the estimated fair value had declined and remained below amortized cost by 50% or

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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 cashflows 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 June 30, 2009, we do not intend to sell the security and it is not more likely than not that we will be required to sell the security 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 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 greater than 15%, maintained for more than one year on below investment grade bonds; and
  - declines in value less than six months where there has been a precipitous (generally 50% or greater) decline in value.

Given recent market conditions and liquidity concerns, and the resulting historically wide bid-ask spreads and high levels of price volatility, the extent and duration of a decline in value have become less indicative of when the market may believe there has been credit deterioration with respect to an issuer. Considering these current conditions, beginning in the third quarter of 2008 our determinations of whether a decline in value is other-than-temporary have placed 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 adopted FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments on January 1, 2009. Effective with the adoption of this guidance we recognize an other-than-temporary impairment in earnings for a debt security in an unrealized loss position when either (a) we have the intent to sell the debt security or (b) more likely than not we will be required to sell the debt security before its anticipated recovery. For all debt securities in unrealized loss positions that do not meet either of these two criteria, we analyze our ability to recover the amortized cost by comparing the net present value 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 net present value is calculated by discounting our best estimate of projected future cash flows at the effective interest rate implicit in the debt security prior to impairment. Our estimates of projected future cash flows are driven by assumptions regarding probability of default and estimates regarding timing and amount of recoveries associated with a default. We develop these estimates using information based on historical internal experience, our internal credit analysis of an investment, as mentioned above, and market observable data, such as industry analyst reports and forecast, sector credit ratings and other data relevant to the collectability of the security. For mortgage-backed and asset-backed securities, cash flow estimates also include prepayment assumptions and other assumptions regarding the underlying collateral including default rates, recoveries and changes in value. The determination of the assumptions used in these projections requires the use of significant management judgment.

The amount of the other-than-temporary impairment recognized in Realized investment gains (losses), net depends on whether 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. If the debt security meets either of these two criteria, the other-than-temporary impairment recognized in earnings is equal to the entire difference between the security s amortized cost basis and its fair value at the impairment measurement date. For other-than-temporary impairments of debt securities that do not meet these two criteria, the net amount recognized in earnings is equal to the difference between the amortized cost of the debt security and its net present value as calculated above. Any difference between the fair value and the net present value of the debt security at the impairment measurement date is recorded in Other comprehensive income (loss).

Prior to the adoption of FSP FAS 115-2 and FAS 124-2 on January 1, 2009, we were required to record an other-than-temporary impairment unless we could assert that we had both the intent and ability to hold the security for a period of time sufficient to allow for a recovery in the debt security s fair value to its amortized cost basis. When we determined that there was an other-than-temporary impairment based on the factors described above, the amount recognized in Realized investment gains (losses), net was equal to the total difference between amortized cost and fair value at the impairment measurement date.

The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. In periods subsequent to the recognition of an other-than-temporary impairment, the impaired security is accounted for as if it had been purchased on the measurement date of the impairment. For debt securities, the discount (or reduced premium) based on the new cost basis may be accreted into net investment income in future periods based on prospective changes in cash flow estimates, to reflect adjustments to the effective yield. For further information regarding the fair value methodology used in determining our other-than-temporary impairments, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Fixed Maturities, above.

Other-than-temporary impairments of general account fixed maturity securities attributable to the Financial Services Businesses that were recognized in earnings were $330 million and $444 million for the three months ended June 30, 2009 and 2008, respectively, and $739 million and $820 million for the six months ended June 30, 2009 and 2008, respectively. Included in the other-than-temporary impairments of general account fixed maturities attributable to the Financial Services Businesses for the three months ended June 30, 2009 and 2008, were $209 million and $375 million, respectively, of other-than-temporary impairments on asset-backed securities collateralized by sub-prime mortgages. Other-than-temporary impairments of general account fixed maturities attributable to the Financial Services Businesses for the six months ended June 30, 2009 and 2008 include $449 million and $665 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 $172 million and $209 million for the three months ended June 30, 2009 and 2008, respectively, and $353 million and $360 million for the six months ended June 30, 2009, respectively. Included in the other-than-temporary impairments of fixed maturities attributable to the Closed Block Business for the three months ended June 30, 2009 and 2008, were $100 million and $166 million, respectively, of other-than-temporary impairments on asset-backed securities collateralized by sub-prime mortgages. Other-than-temporary impairments of general account fixed maturities attributable to the Closed Block Business for the six months ended June 30, 2009 and 2008 include $201 million and $279 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. Investment income for these investments is reported in Net investment income. The following table sets forth the composition of this portfolio as of the dates indicated.

	June 30, 2009		December 31, 2008	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(in millions)			
Short-term Investments and Cash Equivalents	$ 553	$ 553	$ 1,232	$ 1,232
Fixed Maturities:				
Corporate Securities	8,870	8,612	8,814	7,971
Commercial Mortgage-Backed	2,235	2,132	2,335	2,092
Residential Mortgage-Backed	1,399	1,381	708	684
Asset Backed Securities	930	692	915	635
Foreign Government	474	479	416	420
U.S. Government	121	114	147	143
Total Fixed Maturities	14,029	13,410	13,335	11,945
Equity Securities	953	803	1,074	698
Total trading account assets supporting insurance liabilities	$ 15,535	$ 14,766	$ 15,641	$ 13,875

As a percentage of amortized cost, 74% of the portfolio was publicly traded as of June 30, 2009, compared to 75% as of December 31, 2008. As of both June 30, 2009 and December 31, 2008, 88% of the fixed maturity portfolio was classified as investment grade. As of June 30, 2009, $1.195 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,

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including approximately $124 million secured by ALT-A mortgages, represented the remaining $204 million of residential mortgage-backed securities, of which 94% have credit ratings of A or better and 6% are below investment grade. 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.

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)	June 30, 2009 Amortized Cost	June 30, 2009 Fair Value	December 31, 2008 Amortized Cost	December 31, 2008 Fair Value
		(in millions)		
Corporate Securities:				
Manufacturing	$ 2,967	$ 2,917	$ 2,870	$ 2,631
Utilities	1,953	1,894	1,958	1,757
Services	1,383	1,321	1,464	1,302
Finance	1,026	979	1,045	931
Energy	678	661	624	553
Transportation	498	474	462	426
Retail and Wholesale	364	365	390	371
Other	1	1	1	
Total Corporate Securities	$ 8,870	$ 8,612	$ 8,814	$ 7,971

(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

	June 30, 2009						
	Lowest Rating Agency Rating						
Vintage	AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2008
					(in millions)		
Collateralized by sub-prime mortgages:							
2009	$	$	$	$	$	$	$
2008							
2007	3				126	129	133
2006	3	4	16	16	114	153	183
2005	8	6	33	0	23	70	83
2004 & Prior	3	33	12	27	11	86	94

Total collateralized by sub-prime mortgages	17	43	61	43	274	438	493
Other asset-backed securities:							
Collateralized by auto loans	88	7		5		100	149
Collateralized by credit cards	176			105		281	141
Other asset-backed securities	57	4	9	29	12	111	132
Total asset-backed securities	$ 338	$ 54	$ 70	$ 182	$ 286	$ 930	$ 915

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Asset-Backed Securities at Fair Value Trading Account Assets Supporting Insurance Liabilities

Vintage	June 30, 2009 Lowest Rating Agency Rating AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2008
				(in millions)			
Collateralized by sub-prime mortgages:							
2009	$	$	$	$	$	$	$
2008							
2007	2				56	58	61
2006	3	4	5	8	67	87	115
2005	6	6	20		13	45	63
2004 & Prior	2	20	6	14	6	48	59
Total collateralized by sub-prime mortgages(1)	13	30	31	22	142	238	298
Other asset-backed securities:							
Collateralized by auto loans	90	7		5		102	144
Collateralized by credit cards	177			94		271	89
Other asset-backed securities(2)	46	3	7	21	4	81	104
Total asset-backed securities	$ 326	$ 40	$ 38	$ 142	$ 146	$ 692	$ 635

(1) Included within the $438 million of asset-backed securities collateralized by sub-prime mortgages as of June 30, 2009 are $34 million of securities collateralized by second-lien exposures.

(2) As of June 30, 2009, includes collateralized debt obligations with fair value of $6 million, none of which are secured by sub-prime mortgages. Also includes asset-backed securities collateralized by timeshares, education loans, equipment leases, and franchises.

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	June 30, 2009 Lowest Rating Agency Rating AAA	AA	A	BBB	BB and below	Total Amortized Cost	Total December 31, 2008
				(in millions)			
2009	$	$	$	$	$	$	$
2008							
2007	46					46	46
2006	197					197	197
2005	1,006					1,006	1,012
2004 & Prior	882	56	35	10	3	986	1,080
Total commercial mortgage-backed securities	$ 2,131	$ 56	$ 35	$ 10	$ 3	$ 2,235	$ 2,335

Commercial Mortgage-Backed Securities at Fair Value Trading Account Assets Supporting Insurance Liabilities

Vintage	June 30, 2009 Lowest Rating Agency Rating AAA	AA	A	BBB	BB and below	Total Fair Value	Total December 31, 2008
	(in millions)						
2009	$	$	$	$	$	$	$
2008							
2007	38					38	33
2006	186					186	168
2005	968					968	906
2004 & Prior	861	47	25	4	3	940	985
Total commercial mortgage-backed securities	$ 2,053	$ 47	$ 25	$ 4	$ 3	$ 2,132	$ 2,092

The following table sets forth our public fixed maturities included in our trading account assets supporting insurance liabilities portfolio by NAIC rating as of the dates indicated.

Public Fixed Maturity Securities Trading Account Assets Supporting Insurance Liabilities

(1)(2) NAIC Designation	Rating Agency Equivalent	June 30, 2009 Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value	December 31, 2008 Amortized Cost	Gross Unrealized Gains(3)	Gross Unrealized Losses(3)	Fair Value
		(in millions)							
1	Aaa, Aa, A	$ 6,448	$ 108	$ 219	$ 6,337	$ 5,843	$ 48	$ 455	$ 5,436
2	Baa	2,535	34	96	2,473	2,673	4	359	2,318
	Subtotal Investment Grade	8,983	142	315	8,810	8,516	52	814	7,754
3	Ba	478	3	50	431	544		128	416
4	B	274		53	221	279		93	186
5	C and lower	114		50	64	50		29	21
6	In or near default	94		61	33	30		27	3
	Subtotal Below Investment Grade	960	3	214	749	903		277	626
Total Public Trading Account Assets Supporting Insurance Liabilities		$ 9,943	$ 145	$ 529	$ 9,559	$ 9,419	$ 52	$ 1,091	$ 8,380

(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.

The following table sets forth our private fixed maturities included in our trading account assets supporting insurance liabilities portfolio by NAIC rating as of the dates indicated.

Private Fixed Maturity Securities Trading Account Assets Supporting Insurance Liabilities

(1)(2)		June 30, 2009				December 31, 2008			
NAIC Designation	Rating Agency Equivalent	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	Aaa, Aa, A	$ 932	$ 3	$ 38	$ 897	$ 977	$ 2	$ 60	$ 919
2	Baa	2,444	23	139	2,328	2,191	13	191	2,013
	Subtotal Investment Grade	3,376	26	177	3,225	3,168	15	251	2,932
3	Ba	509	1	44	466	571	2	74	499
4	B	132	1	22	111	141		37	104
5	C and lower	63	1	17	47	10		2	8
6	In or near default	6		4	2	26		4	22
	Subtotal Below Investment Grade	710	3	87	626	748	2	117	633
Total Private Trading Account Assets Supporting Insurance Liabilities		$ 4,086	$ 29	$ 264	$ 3,851	$ 3,916	$ 17	$ 368	$ 3,565

(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 investments and certain derivatives we use either in our capacity as a broker-dealer or for asset and liability management activities. Also, for certain financial instruments that contain an embedded derivative that otherwise would need to be bifurcated and reported at fair value, we may elect to classify the entire instrument as a trading account asset and report it within Other trading account assets. These instruments are carried at fair value, with realized and unrealized gains and losses reported in Asset management fees and other income. Interest and dividend income from these investments is reported in Net investment income. The following table sets forth the composition of our other trading account assets as of the dates indicated.

	June 30, 2009				December 31, 2008			
	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 Equivalent	$ 6	$ 6	$	$	$ 6	$ 6	$	$
Fixed Maturities:								
Corporate Securities	103	94	123	119	96	88	123	105
Asset-Backed Securities	1,647	1,575	26	25	371	269	25	15

Commercial Mortgage-Backed	212	119			216	135		
Residential Mortgage-Backed	261	118			278	150		
Foreign Government	32	33			33	34		
U.S. Government	13	13			9	9		
Total Fixed Maturities	2,268	1,952	149	144	1,003	685	148	120
Equity Securities	25	23	19	21	30	23		
Other	15	17			14	14		
Total other trading account assets	$ 2,314	$ 1,998	$ 168	$ 165	$ 1,053	$ 728	$ 148	$ 120

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During the first six months of 2009, we purchased asset-backed securities under the Federal Reserve s Term Asset-Backed Securities Loan Facility, or TALF. TALF provides secured financing for asset-backed securities backed by certain types of consumer and small business loans. As of June 30, 2009, $1,250 million of asset-backed securities attributable to the Financial Services Businesses were purchased under TALF and are reflected within Other trading account assets. We received secured financing from the Federal Reserve of $1,167 million related to the purchase of these securities that is reflected within Long-term debt. For additional information regarding TALF, see Liquidity and Capital Resources.

As of June 30, 2009, on an amortized cost basis 95% of asset-backed securities classified as Other trading account assets attributable to the Financial Services Businesses have credit ratings of A or above, 4% have BBB and the remaining 1% have BB and below credit ratings. As of June 30, 2009, on an amortized cost basis 37% 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 63% have BBB credit ratings.

In second quarter of 2008, we began restructuring certain externally managed investments in the European market attributable to the Financial Services Businesses, which reflected our investment in medium term notes that are collateralized by investment portfolios primarily consisting of European fixed income securities. These investments are now included as direct holdings in our portfolio and are reflected within Other trading account assets. The medium term note investments were previously recorded within fixed maturity securities available for sale. For additional information regarding externally managed investments in the European market, see Fixed Maturity Securities Asset-Backed Securities.

Commercial Mortgage and Other Loans

Investment Mix

As of June 30, 2009 and December 31, 2008 we held approximately 13% of our general account investments in commercial mortgage and other loans. This percentage is net of a $419 million and $211 million allowance for losses as of June 30, 2009 and December 31, 2008, 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.

	June 30, 2009		December 31, 2008	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Commercial mortgage loans	$ 19,817	$ 8,818	$ 19,936	$ 8,765
Uncollateralized loans	1,316	40	1,204	40
Loans collateralized by residential properties(1)	915	1	976	1
Other collateralized loans(2)	187		129	
Total commercial mortgage and other loans(3)	$ 22,235	$ 8,859	$ 22,245	$ 8,806

(1) Loans collateralized by residential properties includes $905 million and $965 million of Japanese recourse loans as of June 30, 2009 and December 31, 2008, respectively.
(2) Other collateralized loans attributable to the Financial Services Businesses includes $95 million and $109 million of collateralized consumer loans and $19 million and $19 million of loans collateralized by aviation assets as of June 30, 2009 and December 31, 2008, respectively.
(3) Excluded from the tables 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 domestic commercial mortgage loans using dedicated investment staff and a network of independent companies through our various regional offices across the country. 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.

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Uncollateralized loans primarily represent reverse dual currency loans and corporate loans which do not meet the definition of a security under SFAS No 115.

Composition of Commercial Mortgage Loans

The global financial markets have experienced extreme stress since the second half of 2007. The availability and cost of credit has been materially affected, leading to a decrease in the overall liquidity and availability of capital in the commercial mortgage loan market, and in particular a decrease in activity by securitization lenders. These conditions have led to greater opportunities for more selective originations by portfolio lenders such as our general account. While we have observed weakness in commercial real estate fundamentals, delinquency rates on our commercial mortgage loans have been relatively stable in recent years. However, continued difficult conditions in the global financial markets and the overall economic downturn could put additional pressure on these fundamentals through rising vacancies, falling rents and falling property values, potentially resulting in higher levels of loan losses.

Our commercial 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 mortgage loans by geographic region and property type as of the dates indicated.

	June 30, 2009				December 31, 2008			
	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 mortgage loans by region:								
U.S. Regions:								
Pacific	$ 5,801	29.3%	$ 2,908	33.0%	$ 5,854	29.4%	$ 2,834	32.3%
South Atlantic	4,586	23.1	1,709	19.4	4,614	23.2	1,751	20.0
Middle Atlantic	2,831	14.3	1,864	21.1	2,953	14.8	1,896	21.6
East North Central	1,677	8.4	451	5.1	1,772	8.9	500	5.7
West South Central	1,548	7.8	654	7.4	1,460	7.3	646	7.4
Mountain	1,202	6.1	485	5.5	1,129	5.7	407	4.6
New England	867	4.4	323	3.7	903	4.5	327	3.7
West North Central	585	2.9	203	2.3	604	3.0	180	2.1
East South Central	373	1.9	165	1.9	385	1.9	167	1.9
Subtotal U.S.	19,470	98.2	8,762	99.4	19,674	98.7	8,708	99.3
Asia	10	0.1			1			
Other	337	1.7	56	0.6	261	1.3	57	0.7
Total commercial mortgage loans	$ 19,817	100.0%	$ 8,818	100.0%	$ 19,936	100.0%	$ 8,765	100.0%

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	June 30, 2009				December 31, 2008			
	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 mortgage loans by property type:								
Industrial buildings	$ 4,491	22.7%	$ 1,965	22.3%	$ 4,544	22.8%	$ 1,959	22.3%
Retail stores	3,965	20.0	1,682	19.1	3,742	18.8	1,578	18.0
Office buildings	3,882	19.6	1,799	20.4	4,024	20.2	1,787	20.4
Apartment Complexes	3,399	17.1	1,659	18.8	3,549	17.8	1,727	19.7
Other	1,768	8.9	549	6.2	1,719	8.6	518	5.9
Hospitality	1,164	5.9	416	4.7	1,134	5.7	427	4.9
Agricultural properties	1,148	5.8	748	8.5	1,224	6.1	769	8.8
Total commercial mortgage loans	$ 19,817	100.0%	$ 8,818	100.0%	$ 19,936	100.0%	$ 8,765	100.0%

Loan-to-value and debt service coverage ratios are measures commonly used to assess the quality of commercial 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 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 June 30, 2009, our general account investments in commercial mortgage loans attributable to the Financial Services Businesses had a weighted average debt service coverage ratio of 1.83 times, and a weighted average loan-to-value ratio of 62%. As of June 30, 2009, our general account investments in commercial mortgage loans attributable to the Closed Block Business had a weighted average debt service coverage ratio of 1.94 times, and a weighted average loan-to-value ratio of 56%. For those general account commercial mortgage loans attributable to the Financial Services Businesses that were originated in 2009, the weighted average loan-to-value ratio was 56%, and the weighted average debt service coverage ratio was 1.58 times.

The values utilized in calculating these loan-to-value ratios are developed as part of our periodic review of the commercial mortgage loan portfolio, which includes a quality re-rating as well as an internal evaluation of the underlying collateral value. 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 mortgage loan portfolio attributable to the Financial Services Businesses included approximately $1.8 billion of such loans as of June 30, 2009 and December 31, 2008, and our commercial mortgage loan portfolio attributable to the Closed Block Business included approximately $0.7 billion of such loans as of June 30, 2009 and December 31, 2008. All else being equal, these loans are inherently more risky than those collateralized by properties that have already stabilized. For information regarding similar loans we hold as part of our commercial mortgage operations, see Invested Asset of Other Entities and Operations. The following tables set forth the gross carrying value of our general account investments in commercial 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 Mortgage Loans by Loan-to-Value and Debt Service Coverage Ratios Financial Services Businesses

Loan-to-Value Ratio	June 30, 2009 Debt Service Coverage Ratio Greater than 2.0x	1.8x to 2.0x	1.5x to 1.8x	1.2x to 1.5x (in millions)	1.0x to 1.2x	Less than 1.0x	Total Commercial Mortgage Loans
0% - 50%	$ 3,193	$ 490	$ 828	$ 630	$ 172	$ 80	$ 5,393
50% - 60%	858	694	1,576	451	219	42	3,840
60% - 70%	711	456	1,041	735	183	84	3,210
70% - 80%	386	612	775	1,641	411	163	3,988
80% - 90%			513	1,084	27	229	1,853
90% - 100%	167	51	243	254	144	63	922
Greater than 100%			43	21	326	221	611
Total commercial mortgage loans	$ 5,315	$ 2,303	$ 5,019	$ 4,816	$ 1,482	$ 882	$ 19,817

Commercial Mortgage Loans by Loan-to-Value and Debt Service Coverage Ratios Closed Block Business

Loan-to-Value Ratio	June 30, 2009 Debt Service Coverage Ratio Greater than 2.0x	1.8x to 2.0x	1.5x to 1.8x	1.2x to 1.5x (in millions)	1.0x to 1.2x	Less than 1.0x	Total Commercial Mortgage Loans
0% - 50%	$ 2,006	$ 535	$ 448	$ 349	$ 65	$ 55	$ 3,458
50% - 60%	331	312	557	227	97	78	1,602
60% - 70%	184	284	425	418	28	22	1,361
70% - 80%	69	166	142	893	92	19	1,381
80% - 90%			175	304	18	119	616
90% - 100%			86	55	109		250
Greater than 100%				13	62	75	150
Total commercial mortgage loans	$ 2,590	$ 1,297	$ 1,833	$ 2,259	$ 471	$ 368	$ 8,818

The following tables set forth the breakdown of our commercial mortgage loans by year of origination as of June 30, 2009.

Commercial Mortgage Loans by Year of Origination

Year of Origination	June 30, 2009 Financial Services Businesses Gross Carrying Value	% of Total ($ in millions)	Closed Block Business Gross Carrying Value	% of Total
2009	$ 818	4.1%	$ 335	3.8%
2008	3,687	18.6	1,206	13.7

2007	4,758	24.0	1,724	19.6
2006	3,496	17.7	1,111	12.6
2005	2,285	11.5	842	9.5
2004 and prior	4,773	24.1	3,600	40.8
Total commercial mortgage loans	$ 19,817	100.0%	$ 8,818	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 predefined set of criteria. 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. We define a non-performing loan as a loan for which 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 our past loan experience, the current credit composition of the portfolio, historical credit migration, property type diversification, default and loss severity statistics and other relevant factors. The valuation allowance for commercial mortgage and other loans can increase or decrease from period to period based on these factors.

The following table sets forth the gross carrying value for commercial mortgage and other loans by loan classification as of the dates indicated:

	June 30, 2009		December 31, 2008	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Current	$ 22,096	$ 8,827	$ 22,162	$ 8,788
Delinquent, not in foreclosure	69	3	57	17
Delinquent, in foreclosure	7			
Restructured	63	29	26	1
Total commercial mortgage and other loans	$ 22,235	$ 8,859	$ 22,245	$ 8,806

The following table sets forth the change in valuation allowances for our commercial mortgage and other loan portfolio as of the dates indicated:

	June 30, 2009		December 31, 2008	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions)			
Allowance, beginning of year	$ 153	$ 58	$ 90	$ 28
Addition to/(release of) allowance for losses	140	68	58	30
Charge-offs, net of recoveries				
Change in foreign exchange			5	
Allowance, end of period	$ 293	$ 126	$ 153	$ 58

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As of June 30, 2009 the $293 million valuation allowance for our commercial mortgage and other loan portfolio attributable to the Financial Services Businesses includes $63 million related to loan specific reserves and $230 million related to the portfolio reserve for probable incurred but not specifically identified losses. As of December 31, 2008 the $153 million valuation allowance for our commercial mortgage and other loan portfolio attributable to the Financial Services Businesses included $8 million related to loan specific reserves and $145 million related to the portfolio reserve for probable incurred but not specifically identified losses.

As of June 30, 2009 the $126 million valuation allowance for our commercial mortgage and other loan portfolio attributable to the Closed Block Business includes $27 million related to loan specific reserves and $99 million related to the portfolio reserve for probable incurred but not specifically identified losses. As of December 31, 2008 the $58 million valuation allowance for our commercial mortgage and other loan portfolio attributable to the Closed Block Business included $6 million related to loan specific reserves and $52 million related to the portfolio reserve for probable incurred but not specifically identified losses. The increase in the allowance for both the Financial Services Businesses and the Closed Block Business primarily reflects the overall economic downturn and weakness in commercial real estate fundamentals, as discussed above.

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

	June 30, 2009				December 31, 2008			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Public equity	$ 2,934	$ 243	$ 224	$ 2,953	$ 3,807	$ 43	$ 624	$ 3,226
Private equity	434	51	47	438	461	20	48	433
Total Equity	$ 3,368	$ 294	$ 271	$ 3,391	$ 4,268	$ 63	$ 672	$ 3,659

Public equity securities include 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. The cost, gross unrealized gains, gross unrealized losses, and fair value of these shares as of June 30, 2009 were $1,261 million, $185 million, $6 million, and $1,440 million, respectively. The cost, gross unrealized gains, gross unrealized losses, and fair value of these shares as of December 31, 2008 were $1,306 million, $23 million, $119 million, and $1,210 million, respectively.

Equity securities also include perpetual preferred securities, which have characteristics of both debt and equity securities. The cost, gross unrealized gains, gross unrealized losses, and fair value of perpetual preferred securities as of June 30, 2009 were $351 million, $6 million, $81 million, and $276 million, respectively. The cost, gross unrealized gains, gross unrealized losses, and fair value of these securities as of December 31, 2008 were $378 million, $1 million, $93 million, and $286 million, respectively.

The equity securities attributable to the Closed Block Business consist principally of investments in common and preferred stock of publicly traded companies, as well as perpetual preferred securities. The

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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

	June 30, 2009				December 31, 2008			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Public equity	$ 2,616	$ 261	$ 387	$ 2,490	$ 2,998	$ 196	$ 811	$ 2,383
Private equity	23			23	17			17
Total Equity	$ 2,639	$ 261	$ 387	$ 2,513	$ 3,015	$ 196	$ 811	$ 2,400

The cost, gross unrealized gains, gross unrealized losses, and fair value of perpetual preferred securities as of June 30, 2009 were $190 million, $2 million, $43 million, and $149 million, respectively. The cost, gross unrealized gains, gross unrealized losses, and fair value of these securities as of December 31, 2008 were $106 million, $0 million, $29 million, and $77 million, respectively.

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

	June 30, 2009		December 31, 2008	
	Cost(1)	Gross Unrealized Losses(1)	Cost(1)	Gross Unrealized Losses(1)
	(in millions)			
Less than three months	$ 1,002	$ 27	$ 1,352	$ 104
Three months or greater but less than six months	118	10	340	31
Six months or greater but less than nine months	172	19	174	9
Nine months or greater but less than twelve months	286	19	124	6
Greater than twelve months	257	29		
Total	$ 1,835	$ 104	$ 1,990	$ 150

(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

	June 30, 2009		December 31, 2008	
	Cost(1)	Gross Unrealized Losses(1)	Cost(1)	Gross Unrealized Losses(1)
	(in millions)			
Less than three months	$ 37	$ 9	$ 1,002	$ 337
Three months or greater but less than six months	287	73	248	80
Six months or greater but less than nine months	137	52	39	17
Nine months or greater but less than twelve months	59	21	322	88
Greater than twelve months	22	12		
Total	$ 542	$ 167	$ 1,611	$ 522

(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 both June 30, 2009 and December 31, 2008 were primarily concentrated in the finance, other, 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 $167 million as of June 30, 2009 includes $12 million of gross unrealized losses on securities with a cost of $21 million where the estimated fair value had declined and remained below cost by 50% or more, all of which was included in the greater than twelve months timeframe. Securities that have been in a continuous unrealized loss position for twelve months or more as of June 30, 2009 represent perpetual preferred securities, which have characteristics of both debt and equity securities and to which an impairment model similar to our fixed maturities is applied. 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

	June 30, 2009		December 31, 2008	
	Cost(1)	Gross Unrealized Losses(1)	Cost(1)	Gross Unrealized Losses(1)
	(in millions)			
Less than three months	$ 1,168	$ 21	$ 1,348	$ 106
Three months or greater but less than six months	53	8		
Six months or greater but less than nine months	188	21		
Nine months or greater but less than twelve months	357	45		
Greater than twelve months	52	9		

Total	$ 1,818	$ 104	$ 1,348	$ 106

(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

	June 30, 2009		December 31, 2008	
	Cost(1)	Gross Unrealized Losses(1)	Cost(1)	Gross Unrealized Losses(1)
	(in millions)			
Less than three months	$ 111	$ 29	$ 288	$ 89
Three months or greater but less than six months	87	27	1,289	580
Six months or greater but less than nine months	201	75	72	36
Nine months or greater but less than twelve months	421	152		
Greater than twelve months				
Total	$ 820	$ 283	$ 1,649	$ 705

(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 June 30, 2009 were primarily concentrated in the manufacturing, finance, and service sectors compared to December 31, 2008 where the gross unrealized losses were primarily concentrated in the manufacturing, finance and services 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 $283 million as of June 30, 2009 does not includes any gross unrealized losses on securities where the estimated fair value had declined and remained below cost by 50% or more. Securities that have been in a continuous unrealized loss position for twelve months or more as of June 30, 2009 represent perpetual preferred securities, which have characteristics of both debt and equity securities and to which an impairment model similar to our fixed maturities is applied. 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.

Given recent market conditions and liquidity concerns, and the resulting high levels of price volatility, beginning in the third quarter of 2008 we extended the parameters under which we consider a decline in value to be other-than-temporary. In particular, 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 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. The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. Estimated fair values for publicly traded equity securities are based on quoted market prices or prices obtained from independent pricing services. Estimated fair values for privately traded equity securities are determined using valuation and discounted cash flow models that require a substantial level of judgment. In determining the fair value of certain privately traded equity securities the discounted cash flow model may also use unobservable inputs, which reflect our own assumptions about the inputs market participants would use in pricing the asset. Impairments on equity securities are included in Realized investment gains (losses), net and are excluded from adjusted operating income. For further information regarding the fair value methodology used in determining our other-than-temporary impairments, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Equity Securities, above.

Impairments of equity securities attributable to the Financial Services Businesses were $64 million and $95 million for the three months ended June 30, 2009 and 2008, respectively, and $317 million and $143 million for the six months ended June 30, 2009 and 2008, respectively. Impairments of equity securities attributable to the Closed Block Business were $199 million and $135 million for the three months ended June 30, 2009 and 2008, respectively, and $439 million and $187 million for the six months ended June 30, 2009 and 2008, respectively. For a further discussion of impairments, see Realized Investment Gains and Losses above.

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Other Long-Term Investments

Other long-term investments are comprised as follows:

	June 30, 2009		December 31, 2008	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
		(in millions)		
Joint ventures and limited partnerships:				
Real estate related	$ 339	$ 379	$ 405	$ 348
Non real estate related	855	993	904	1,044
Real estate held through direct ownership	1,015		1,109	
Other(1)	572	174	617	237
Total other long-term investments	$ 2,781	$ 1,546	$ 3,035	$ 1,629

(1) Primarily includes derivatives and member stock held in the Federal Home Loan Bank of New York. For additional information regarding our holding in the Federal Home Loan Bank of New York, see Note 9 to the Unaudited Interim Consolidated Financial Statements.

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.

	June 30, 2009	December 31, 2008
	(in millions)	
Fixed Maturities:		
Public, available for sale, at fair value	$ 1,709	$ 1,805
Private, available for sale, at fair value	44	55
Other trading account assets, at fair value	1,552	3,488
Equity securities, available for sale, at fair value	13	6
Commercial mortgage and other loans, at book value	2,019	2,274
Securities purchased under agreements to resell		480
Other long-term investments	1,389	2,348
Short-term investments	1,186	1,218
Total investments	$ 7,912	$ 11,674

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.

Our derivatives trading operations maintain trading positions in various foreign exchange instruments and commodities, primarily to facilitate transactions for our clients. We seek to use short security positions and 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. The positions held relating to these trading operations are primarily included in Other trading account assets.

In our banking operations, customer deposit liabilities are primarily supported by fixed maturity and short-term investments, in addition to cash and cash equivalents.

As part of our asset management operations we make 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). These proprietary investments are primarily included in Other long-term investments. As part of our asset management operations we also make short term loans to our managed funds that are secured by equity commitments from investors or assets of the funds. These short term loans are primarily included in Short-term investments.

Our asset management operations also 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. Due to current market conditions and the inherent risk of these loans, the underwriting of new interim loans has been suspended. Our interim loans are generally paid off through refinancing or the sale of the underlying collateral by the borrower. As of June 30, 2009, the interim loans had an unpaid principal balance of $1.8 billion and an allowance for losses or credit related market value losses totaling $150 million. The weighted average loan-to-value ratio was 109%, indicating that, in aggregate, the loan amount was greater than the collateral value, and the weighted average debt service coverage ratio was 1.26 times. A stabilized value and projected net operating income are used in the calculation of the loan-to-value and debt service coverage ratios. 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.

As of June 30, 2009, invested assets held outside the general account in other entities and operations include available for sale residential mortgage-backed securities with amortized cost of $741 million and fair value of $760 million, virtually all of which have credit ratings of AAA, and available for sale commercial mortgage-backed securities with amortized cost of $67 million and fair value of $64 million, 90% of which have credit ratings of A or better and the remaining 10% of which have credit ratings of BB and below. An additional $1 million of commercial mortgage-backed securities held outside the general account are classified as other trading account assets as of June 30, 2009 all of which have AAA credit ratings.

As of June 30, 2009, invested assets held outside the general account in other entities and operations also includes available for sale asset-backed securities with amortized cost of $238 million and fair value of $229 million. Based on amortized cost, 85% have credit ratings of AAA, 1% have AA credit ratings, 1% have A credit ratings and the remaining 13% have BBB or below credit ratings. Included within these asset-backed securities as of June 30, 2009, are securities collateralized by sub-prime mortgages with amortized cost and fair value of $1 million, all of which have AAA credit ratings, primarily in the 2006 vintage. As of June 30, 2009, there was $21 million in collateralized debt obligations held outside the general account in other entities and operations. An additional $21 million of asset-backed securities held outside the general account as of June 30, 2009 are classified as other trading account assets, 98% of which have credit ratings of AAA and 2% of which have credit ratings of B.

Liquidity and Capital Resources

Extraordinary Market Conditions and their Impact on our Liquidity and Capital Resources

The disruptions in the capital markets that began in the latter half of 2007, initially due to concerns over sub-prime mortgage holdings of financial institutions, accelerated to unprecedented levels in 2008, resulting in failure, consolidation, or U.S. federal government intervention on behalf of several significant financial institutions. The ensuing volatility in markets, and the adverse impact on availability and cost of credit and capital, have largely continued into 2009. We, like other financial institutions, have not been immune to these events.

As a consequence of the market dislocation and in order to manage our liquidity and capital resources, we undertook certain actions during 2008 that enabled us to maintain capital at December 31, 2008 consistent with our ratings objectives, and to maintain sufficient liquidity and capital flexibility. Those actions are described in more detail in the Liquidity and Capital Resources section of our 2008 Annual Report on Form 10-K.

Due to the continuation of the market dislocation, we undertook certain additional actions to strengthen our liquidity and capital position during the first half of 2009, including the following: (1) issued 36,858,975 shares of Prudential Financial Common Stock in a public offering (at a price of $39.00 per share for gross proceeds of $1.438 billion) and $1 billion of medium-term notes; (2) made capital contributions and capital loans to our international insurance operations in Japan totaling $366 million; (3) borrowed $1.5 billion from the Federal Home Loan Bank of New York in the form of collateralized funding agreements, which was subsequently used to replace inter-company funding agreements between Prudential Insurance and Prudential Financial, previously funded through proceeds from the sale of Prudential Financial s retail medium-term notes, making the corresponding proceeds from prior sales of retail medium-term notes available to Prudential Financial for general corporate purposes; (4) reduced our reliance on commercial paper issued by Prudential Funding, LLC; (5) undertook sales of assets held by some of our affiliates to reduce their borrowing needs; (6) realized gains from certain derivative positions, including those related to the U.S. dollar denominated products co-insured from our Japanese insurance operations; and (7) acquired assets that would be eligible to be pledged as collateral to the FHLBNY. While the above actions have strengthened our liquidity and capital position, certain of them, as well as our decision to maintain higher levels of cash and short-term investments than in prior periods, have prevented us from investing our resources in an economically optimal manner.

In addition, the following events occurred during the second quarter of 2009: (1) on June 1, 2009, Prudential Financial announced it will not participate in the TARP Capital Purchase Program; (2) on June 15, 2009, $1.819 billion of the floating rate convertible senior notes issued in 2007 were repurchased by Prudential Financial at par plus accrued interest as required by the holders under the terms of the notes, using existing cash and short-term investments; and (3) on June 17, 2009, we provided notice to Wells Fargo of our exercise of the lookback option put rights under the terms of the joint venture agreements relating to our minority interest in Wachovia Securities.

The Company continues to operate with significant cash on the balance sheet and has access to alternate sources of liquidity, as described below. However, a continuation or worsening of the disruptions in the capital markets could adversely affect Prudential Financial 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 additional actions beyond those described above, 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) utilize further proceeds from our outstanding retail medium-term notes for general corporate purposes by accelerating repayments of additional funding agreements from Prudential Insurance; (4) undertake additional capital management activities, including reinsurance transactions; (5) transfer ownership of certain subsidiaries of Prudential Financial to Prudential Insurance; (6) take additional actions related to derivatives; (7) limit or curtail sales of certain products and/or restructure existing products; (8) effectuate the repayment of affiliate surplus notes; (9) undertake further asset

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Explanation of Responses:

sales or internal asset transfers; and (10) seek temporary or permanent changes to regulatory rules. Certain of these actions may require regulatory approval and/or agreement of counterparties, which are outside of our control, or have economic costs associated with them. In the event that market conditions deteriorate further, we may also be required to make further capital contributions to our regulated domestic or international subsidiaries.

Management monitors the liquidity of Prudential Financial and the Company 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, including reasonably foreseeable contingencies.

Prudential Financial

The principal sources of funds available to Prudential Financial, the parent holding company and registrant, to meet its obligations, including the payment of debt service, shareholder dividends, operating expenses, capital contributions and obligations to subsidiaries, are dividends, returns of capital, 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 bank facilities, as well as the Alternative Sources of Liquidity described below.

As of June 30, 2009, Prudential Financial had cash and short-term investments of $4.735 billion, an increase of $301 million from December 31, 2008. Included in the cash and short-term investments of Prudential Financial is $701 million 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 affiliates on a daily basis. Short-term investments comprise $1.620 billion of Prudential Financial s total cash and short-term investments and consist primarily of government agency securities and money market funds.

Prudential Financial s principal sources and uses of cash and short-term investments for the six months ended June 30, 2009 were as follows:

	Six Months Ended June 30, 2009 (in millions)
Sources:	
Dividends and/or returns of capital from subsidiaries(1)	$ 1,009
Net proceeds from the issuance of Common Stock(2)	1,391
Proceeds from the issuance of long-term senior debt, net of repayments(2)	770
Repayment of funding agreements from Prudential Insurance(3)	1,251
Net receipts under intercompany loan agreements(4)	213
Proceeds from stock-based compensation and exercise of stock options	99
Total sources	4,733
Uses:	
Capital contributions to subsidiaries(5)	638
Shareholder dividends(6)	37
Repayment of short-term debt, net of issuances(7)	1,568
Repayment of retail medium term notes(2)	67
Repayment of floating rate convertible senior notes(2)	2,056
Other, net	66
Total uses	4,432

Net increase in cash and short-term investments	$	301

(1) Includes dividends and/or returns of capital of $867 million from international insurance and investments subsidiaries, including the repayment of capital loans which were refinanced from internal sources in connection with the maturity of ¥74 billion borrowed under unsecured bridge loan facilities, $137 million from asset management subsidiaries and $5 million from other subsidiaries.

(2) See Financing Activities.
(3) See Prudential Financial Alternative Sources of Liquidity Federal Home Loan Bank of New York.
(4) Includes net repayment of loans of $376 million by asset management subsidiaries and $115 million by international insurance subsidiaries, partially offset by net borrowings of $298 million by real estate and relocation services business and $140 million by Pruco Reinsurance. The remainder represents loans and repayments from other subsidiaries.
(5) Includes capital contributions of $477 million to international insurance and investments subsidiaries, $67 million to asset management subsidiaries and $94 million to other subsidiaries.
(6) Represents payments of Common Stock dividends made in the first half of 2009 with respect to the dividend declared in 2008.
(7) Includes repayment at maturity of ¥74 billion borrowed under unsecured bridge loan facilities as discussed in Financing Activities and a decrease in outstanding commercial paper as discussed in Prudential Financial Alternative Sources of Liquidity Commercial Paper Programs.

Prudential Financial is a holding company whose principal assets are its investments in subsidiaries. We believe Prudential Financial s capitalization and use of financial leverage are consistent with its ratings targets. Our long-term senior debt credit 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. For our current ratings (some of which are below these targets), a description of material rating actions that occurred in 2009, and a discussion of the potential impacts of further ratings downgrades, see Ratings. We seek to capitalize all of our subsidiaries and businesses in accordance with their ratings targets.

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 and postretirement benefits), outstanding junior subordinated debt and outstanding capital debt of the Financial Services Businesses, as discussed below under Financing Activities. Based on these components, the capital position of the Financial Services Businesses as of June 30, 2009 was as follows:

	June 30, 2009 (in millions)
Attributed equity (excluding unrealized gains and losses on investments and pension/postretirement benefits)	$ 22,452
Junior subordinated debt (hybrid securities)(1)	1,518
Capital debt(1)	6,486
Total capital	$ 30,456

(1) Our capital debt to total capital ratio was 22.5% as of June 30, 2009. For the purpose of calculating this ratio, 75% of the hybrid securities are attributed equity credit, with the remaining 25% treated as capital debt.

As shown in the table above, as of June 30, 2009, the Financial Services Businesses had $30.5 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 June 30, 2009.

In response to the market dislocation affecting the banking system and financial markets, on October 3, 2008, President Bush signed the Emergency Economic Stabilization Act of 2008, or EESA, into law. Pursuant to the EESA, the U.S. Treasury has the authority to, among other things, purchase up to $700 billion of mortgage-backed and other securities from financial institutions for the purpose of stabilizing the financial markets. On October 14, 2008, the U.S. Treasury announced that it would use EESA authority to invest an aggregate of $250 billion (of the first $350 billion released under EESA) in capital issued by qualifying U.S. financial institutions under the U.S. Treasury s Capital Purchase Program, which is part of the Troubled Asset Relief Program, or

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TARP. The TARP Capital Purchase Program involves the issuance by qualifying institutions of preferred stock and warrants to purchase common stock to the U.S. Treasury. Concurrently, with the announcement of the TARP Capital Purchase Program in coordination with the U.S. Treasury, the Federal Deposit Insurance Corporation, or FDIC, announced the Temporary Liquidity Guarantee Program, through which it guarantees certain newly issued senior unsecured debt issued by FDIC insured institutions and their qualifying holding companies, as well as funds over $250,000 in non-interest-bearing transaction deposit accounts. In addition, since March 2008, the Federal Reserve has created several lending facilities to stabilize financial markets, including the Term Asset-Backed Securities Loan Facility, or TALF. The TALF is designed to provide secured financing for certain types of asset-backed securities, including (as of July 2009) certain high-quality commercial mortgage-backed securities issued before January 1, 2009.

On February 10, 2009, the U.S. Treasury announced a Financial Stability Plan to build upon existing programs and earmark the second $350 billion of funds that were authorized under the EESA and released in January 2009. The elements of the Financial Stability Plan, as described by the U.S. Treasury, are a Capital Assistance Program and Financial Stability Trust to make capital available to financial institutions through additional purchases of preferred stock, a Public-Private Investment Program, or PPIP, to buy legacy loans and assets from financial institutions, a Consumer and Business Lending Initiative to restart securitization markets for loans to consumers and businesses by expanding upon TALF, and a comprehensive housing program to, among other things, help reduce mortgage payments and interest rates. The U.S. Treasury has stated that the Financial Stability Plan will require high levels of transparency and accountability standards and dividend, acquisition and executive compensation restrictions for financial institutions that receive government assistance going forward.

We applied in October 2008 to participate in the TARP Capital Purchase Program and on May 14, 2009, we received preliminary approval from the U.S. Treasury to participate in the Program. However, on June 1, 2009, we announced that we would not participate in the TARP Capital Purchase Program.

Beginning in the first quarter of 2009, we began participating in TALF as an eligible borrower as discussed in more detail in Financing Activities Consolidated Borrowings. We continue to evaluate other government sponsored programs for which we may be eligible.

In addition to the foregoing, the U.S. federal government, as well as foreign governments and central banks, have taken or are considering taking other actions to address the financial market dislocation. We cannot predict with any certainty whether these actions will be effective or the effect they may have on the financial markets, or on our businesses, results of operations, cash flows or financial condition.

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 or distributions, all dividends or distributions paid by Prudential Insurance may be declared or paid only from unassigned surplus, as determined pursuant to statutory accounting principles, less unrealized investment gains and losses and revaluation of assets. As of December 31, 2008, Prudential Insurance s unassigned surplus was $2.781 billion, and it recorded applicable adjustments for cumulative unrealized investment gains of $283 million. Prudential Insurance must also notify the New Jersey Department of Banking and Insurance of its intent to pay a dividend or distribution. If the dividend or distribution, together with other dividends or distributions made within the preceding twelve months, exceeds a specified statutory limit it is considered an extraordinary dividend or distribution and Prudential Insurance must obtain the prior non-disapproval of the Department. The current statutory limitation applicable to New Jersey life insurers is generally the greater of 10% of the prior calendar year s statutory surplus, which surplus was $6.432 billion as of December 31, 2008, or the prior calendar year s statutory net gain from operations excluding realized investment gains and losses, $498 million for the year ended December 31, 2008. Prudential Insurance and our other insurance subsidiaries may also be subject to additional company specific regulatory limitations

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and adjustments. 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 certain other circumstances.

We anticipate that, unless market conditions improve, dividends from Prudential Insurance will either not be available or will be substantially constrained in 2009 by the capital requirements of our financial strength rating targets. In 2008, Prudential Insurance declared an ordinary dividend of $727 million and an extraordinary dividend of $773 million to Prudential Holdings, LLC, which were in turn distributed to Prudential Financial.

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. Pursuant to Gibraltar Life s reorganization, in addition to regulatory restrictions, there are certain other restrictions on Gibraltar Life s ability to pay dividends to Prudential Financial. We anticipate that it will be several years before these restrictions will allow Gibraltar Life to pay such dividends. There are also regulatory restrictions on the payment of dividends by The Prudential Life Insurance Company, Ltd., or Prudential of Japan, which began paying dividends in 2006. Further, current market conditions have impacted capital positions of our international insurance companies, which could further restrict their ability to pay dividends. The ability of our asset management subsidiaries, and the majority of our other operating subsidiaries, to pay dividends is largely unrestricted.

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 Lines of Credit and Other Credit Facilities, as well as the other alternative sources of liquidity described below.

Commercial Paper Programs

Prudential Financial has a commercial paper program currently rated A-1 by S&P, P-2 by Moody s and F2 by Fitch with a current authorized capacity of $5.0 billion. The rating from Fitch currently has a negative outlook. Prudential Financial commercial paper borrowings have been generally used to fund the working capital needs of Prudential Financial s subsidiaries and provide short-term liquidity at Prudential Financial. Prudential Financial s outstanding commercial paper borrowings were $505 million as of June 30, 2009, with a weighted average maturity of 10 days of which 40% was overnight. This represents a decrease of $738 million from December 31, 2008, largely due to the repayment of maturing commercial paper issued under the CPFF program, described below. As of June 30, 2009, the vast majority of the proceeds of this outstanding commercial paper was either held in cash or invested in short-term financial instruments. The daily average commercial paper outstanding during the first half of 2009 under this program was $819 million. The weighted average interest rate on these borrowings was 2.01% and 3.55% for the six months ended June 30, 2009 and 2008, respectively.

Prudential Funding, LLC, or Prudential Funding, a wholly owned subsidiary of Prudential Insurance, has a commercial paper program, currently rated A-1+ by S&P, P-1 by Moody s and F1 by Fitch with a current authorized capacity of $12.0 billion. The rating from Moody s is currently or review for a possible downgrade and the Fitch rating has a negative outlook. Prudential Funding s outstanding commercial paper and master note borrowings were $1.718 billion as of June 30, 2009, with a weighted average maturity of 38 days of which 11% was overnight. This represents a decrease of $2.636 billion from December 31, 2008, largely due to a reduction

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in the investment in our enhanced short-term portfolio and repayment of loans by our affiliates, funded through a combination of asset sales, substitute funding from Prudential Financial from the proceeds of the medium-term notes issued in June 2009, and other internal sources of cash. As of June 30, 2009, $577 million of the proceeds of this outstanding commercial paper were held in cash and cash equivalents, while the remaining $1.141 billion was primarily utilized to fund short-term cash flow timing mismatches and the working capital needs of our affiliates. The daily average commercial paper outstanding during the first half of 2009 under this program was $3.521 billion. The weighted average interest rates on these borrowings were 0.86% and 2.85% for the six months ended June 30, 2009 and 2008, respectively. Prudential Financial has issued a subordinated guarantee covering Prudential Funding s domestic commercial paper program.

Both Prudential Financial s and Prudential Funding s commercial paper programs were granted approval to participate in the Federal Reserve Bank of New York s Commercial Paper Funding Facility, or CPFF, during the fourth quarter of 2008. The CPFF is intended to improve liquidity in short-term funding markets by increasing the availability of term commercial paper funding to issuers and by providing greater assurance to both issuers and investors that firms will be able to roll over their maturing commercial paper. Commercial paper programs must maintain ratings of at least A-1/P-1/F1 by at least two rating agencies in order to be eligible for the CPFF. Unsecured commercial paper issued under the CPFF is discounted based on a rate equal to a spread (200 basis points) over the three-month overnight index swap rate on the day of purchase. Access to the CPFF for the issuance of new commercial paper is scheduled to terminate on February 1, 2010, unless such date is extended by the Federal Reserve Bank of New York.

As of June 30, 2009, neither Prudential Financial nor Prudential Funding had any commercial paper outstanding under the CPFF. On February 19, 2009, the commercial paper credit rating of Prudential Financial was downgraded by Fitch from F1 to F2. Consequently, as of that date, Prudential Financial became ineligible to issue commercial paper under the CPFF. However, Prudential Funding continues to be an eligible issuer under the CPFF based on its current credit ratings and may sell to the CPFF three-month unsecured U.S. dollar denominated commercial paper up to a maximum of $9.815 billion, less the outstanding amount of any non-CPFF commercial paper at any applicable time.

Despite the recent improvement in the short-term funding markets, Prudential still faces some challenges due to liquidity and credit constraints that exist in the general market. Rating agency actions during the same period have additionally impacted our commercial paper programs. As a result, the financing cost of Prudential Financial commercial paper increased versus its historical cost basis relative to the target federal funds rate, as investors demanded a premium for such top-tier split rated commercial paper. The financing cost of Prudential Funding commercial paper increased as well versus its historical cost basis relative to the target federal funds rate over the same period. Additionally, we have also experienced a reduction in investor demand for both of our commercial paper programs.

While we consider availability of commercial paper as one of our alternative sources of liquidity, we have continued to reduce our reliance on commercial paper to fund our operations, and have developed plans which would enable us to further reduce, or if necessary eliminate, our borrowings under the Prudential Financial and Prudential Funding commercial paper programs, through the use of other sources of liquidity.

Both commercial paper programs are backed by our unsecured committed lines of credit. As of June 30, 2009, Prudential Financial, Prudential Insurance and Prudential Funding had unsecured committed lines of credit totaling $4.34 billion. There were no outstanding borrowings under these facilities as of June 30, 2009. For a further discussion of lines of credit, see Lines of Credit and Other Credit Facilities.

Asset-based Financing

We conduct asset-based or secured financing within our insurance and other subsidiaries, including transactions such as securities lending and repurchase agreements, in order to earn spread income, to borrow funds, or to facilitate trading activity. These programs are driven by portfolio holdings in 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. 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 June 30, 2009, our Financial Services Businesses had liabilities totaling $5.929 billion under such programs, including $3.467 billion representing securities sold under agreements to repurchase, $2.233 billion representing cash collateral for loaned securities and $229 million representing securities sold but not yet purchased. Of the $5.929 billion for the Financial Services Businesses as of June 30, 2009, $2.795 billion represents securities that may be returned to the company overnight requiring immediate return of the cash collateral, and the remainder has maturities ranging from 2 days to 3 months with a weighted average maturity of 34 days. As of December 31, 2008, our Financial Services Businesses had liabilities totaling $7.455 billion under such programs.

As of June 30, 2009, our Closed Block Business had liabilities totaling $5.130 billion under such programs, including $3.701 billion representing securities sold under agreements to repurchase and $1.429 billion representing cash collateral for loaned securities. Of the $5.130 billion for the Closed Block Business as of June 30, 2009, $2.369 billion represents securities that may be returned to the company overnight requiring immediate return of the cash collateral, and the remainder has maturities ranging from 2 days to 3 months with a weighted average maturity of 31 days. As of December 31, 2008, our Closed Block Business had liabilities totaling $5.096 billion under such programs.

As of June 30, 2009, our domestic insurance entities had assets eligible for the lending program of $66.8 billion, of which $9.9 billion were on loan. Taking into account market conditions and outstanding loan balances as of June 30, 2009, we believe approximately $18.0 billion of the remaining eligible assets are readily lendable, of which approximately $12.5 billion relates to the Financial Services Business. 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 has been a member of the Federal Home Loan Bank of New York, or FHLBNY, since June 2008. Membership allows Prudential Insurance to participate in FHLBNY s product line of financial services, including collateralized advances, collateralized funding agreements and general asset/liability management that can be used for liquidity management and as an alternative source of funding. Our membership

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in FHLBNY requires us to maintain ownership of member stock, and borrowings from FHLBNY require us to purchase FHLBNY activity based stock in an amount equal to 4.5% of outstanding borrowings. Under FHLBNY guidelines, borrowings by its members are at the discretion of the FHLBNY.

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

The fair value of the qualifying assets pledged as collateral by Prudential Insurance must be maintained at certain specified levels of the borrowed amount, which can vary, depending on the nature of the assets pledged. If the fair value of the collateral declines below these levels or if assets previously pledged cease to qualify under FHLBNY guidelines (such as due to ratings downgrades on mortgage-backed securities), Prudential Insurance could be required to pledge additional collateral or repay outstanding borrowings. If at the time of a proposed borrowing, or at a time when required to pledge additional collateral in respect of outstanding borrowings, Prudential Insurance had insufficient qualifying assets, it would need to obtain and pledge additional mortgage-related assets and/or Treasury securities through asset purchases, reacquiring assets on loan or otherwise, subject to availability on appropriate terms. As of June 30, 2009, we had pledged qualifying assets with a fair value of $7.439 billion, which would have allowed us to borrow up to approximately $6.8 billion. As of that date, our actual borrowings outstanding, in the form of collateralized advances and collateralized funding agreements, were $3.5 billion. The additional collateral provides us the flexibility for further borrowings, and obviates the need for periodic collateral true-ups due to volatility in the fair value of the pledged assets or assets previously pledged ceasing to qualify as collateral under FHLBNY guidelines.

In February and March 2009, Prudential Insurance issued collateralized funding agreements in an aggregate amount of $1.5 billion to the FHLBNY. The funding agreements, which are reflected in Policyholders account balances, have priority claim status above debt holders of Prudential Insurance. These funding agreements currently serve as a substitute funding source for a product of our Retirement segment for which we earn investment spread that was previously funded by retail medium-term notes issued by Prudential Financial. This substitution allows Prudential Financial to use the proceeds from the sale of the corresponding retail medium-term notes for general corporate purposes. To effect the substitution, during the first and second quarters of 2009, $1.015 billion and $507 million, respectively, of intercompany funding agreements that were previously issued by Prudential Insurance to Prudential Financial were terminated for payments of $730 million and $491 million, respectively, from Prudential Insurance to Prudential Financial. These payments represent the fair value of the funding agreements on the date of termination. We may conduct similar transactions, or take other actions, in future periods in order to utilize additional retail medium-term notes proceeds for general corporate purposes.

In addition, as of June 30, 2009, $1.0 billion of the FHLBNY advances outstanding are reflected in Long-term debt, and have a maturity of December 6, 2010, and $1.0 billion is reflected in Short-term debt. As of June 30, 2009, proceeds from these advances of $0.2 billion were invested in cash and short-term investments at Prudential Insurance, $1.2 billion were used to support the operating needs of our businesses, $0.3 billion were used as a replacement source of funding for a portion of capital requirements of Gibraltar Life, previously funded through foreign currency denominated unsecured bridge loan facilities, and the balance was used to purchase investments, including the requisite FHLBNY activity based stock.

Prudential Insurance may, from time to time, borrow additional funds from FHLBNY for purposes of managing liquidity, making operating loans to affiliates, asset/liability management, or issuance of funding agreements. Under FHLBNY guidelines, if Prudential Insurance s claims-paying ratings decline below certain levels, 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, Prudential Insurance s ratings are at or above the required minimum levels, and, as a result, there is no restriction on the term of borrowings from the FHLBNY.

Economic Capital

We are in the process of developing an economic capital framework, and have begun using economic capital as an additional source of information for our business decisions. As we continue developing the framework, we will be assessing our overall capital position using both economic capital and our current framework, which is primarily based on statutory risk based capital measures.

Liquidity and Capital Resources of Subsidiaries

Domestic Insurance Subsidiaries

General Liquidity

Liquidity refers to a company s ability to generate sufficient cash flows to meet the needs of its operations. 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.

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.

We have received a request pursuant to the documentation for the disposition of our property and casualty operations completed in 2003 to deposit into a trust cash or securities 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. We estimate that the amount of cash or securities to be deposited is approximately $500 million, and we are allowed to satisfy a portion of this requirement through the deposit of promissory notes received from the purchaser at the time of the disposition. We believe that the deposit of these assets would not be 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.

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 (including those with enhancements under EESA), 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.

	June 30, 2009		December 31, 2008	
	Amount	% of Total	Amount	% of Total
	($ in millions)			
Not subject to discretionary withdrawal provisions	$ 36,613	46%	$ 36,880	47%
Subject to discretionary withdrawal, with adjustment:				
With market value adjustment	20,661	26	20,341	26
At market value	1,484	2	1,279	2
At contract value, less surrender charge of 5% or more	4,076	5	4,048	5
Subtotal	62,834	79	62,548	80
Subject to discretionary withdrawal at contract value with no surrender charge or surrender charge of less than 5%	16,212	21	15,906	20
Total annuity reserves and deposit liabilities	$ 79,046	100%	$ 78,454	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 current value of these guarantee features to policyholders as a result of recent market declines. Annuity benefits 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 June 30, 2009 and December 31, 2008, our domestic insurance operations had liquid assets of $125.3 billion and $125.4 billion, respectively, which includes a portion

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financed with asset-based financing. The portion of liquid assets comprised of cash and cash equivalents and short-term investments was $9.5 billion and $10.7 billion as of June 30, 2009 and December 31, 2008, respectively. As of June 30, 2009, $98.6 billion, or 87%, of the fixed maturity investments that are not designated as held to maturity within our domestic insurance company general account portfolios were rated investment grade. The remaining $14.4 billion, or 13%, of these fixed maturity investments were rated non-investment grade. 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 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 short-term 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 or 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.

Prudential Funding, LLC

Prudential Funding, LLC, or Prudential Funding, a wholly owned subsidiary of Prudential Insurance, serves 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 established with the New Jersey Department of Banking and Insurance. To the extent that other subsidiaries of Prudential Financial have financing needs in excess of these limits, these needs are met through financing from Prudential Financial directly or from third parties. Prudential Funding operates under 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 domestic commercial paper program. Prudential Funding borrows funds primarily through the direct issuance of commercial paper. Prudential Funding s outstanding commercial paper, including master note borrowings, were $1.718 billion as of June 30, 2009 and $4.354 billion as of December 31, 2008, and are more fully discussed in Alternate Sources of Liquidity. The impact of Prudential Funding s financing capacity on liquidity is considered in the internal liquidity measures of the domestic insurance operations.

The total principal amount of debt outstanding under Prudential Funding s domestic medium-term note programs was $172 million as of both June 30, 2009 and December 31, 2008. The weighted average interest rates on Prudential Funding s long-term debt, including the effect of interest rate hedging activity, were 1.41%, and 4.46% for the six months ended June 30, 2009 and 2008, respectively.

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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 s RBC ratio to a level consistent with a AA ratings target. 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. 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. Prudential Insurance reported an RBC ratio of 452% as of December 31, 2008. The RBC ratio is an annual calculation; however, based upon June 30, 2009 amounts, we estimate that the RBC ratios for Prudential Insurance and our other domestic life insurance subsidiaries would exceed the minimum level required by applicable insurance regulations.

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, among other items. The level of statutory capital of our domestic life insurance subsidiaries is affected by statutory accounting rules, including those for loan-backed and structured securities. Mandatory adoption of changes to the rules for loan-backed and structured securities was recently deferred until periods ending on or after September 30, 2009. Further changes to these rules by insurance regulators, or the timing of the Company s application of these rules, are possible, given the deferral and other uncertainty around the resolution of these accounting rules.

The implementation of VACARVM, a new statutory reserve methodology for variable annuities with guaranteed benefits, effective December 31, 2009 is not expected to have a material impact on the statutory surplus of our domestic life insurance subsidiaries. However, VACARVM is expected to result in higher statutory reserves ceded to our offshore captive reinsurance company, which we currently anticipate will increase statutory reserve credit requirements by approximately $1.0 billion from December 31, 2008. Several strategies are currently under review to meet the increased statutory reserve credit requirement. The activities we may undertake to mitigate or address these needs include obtaining letters of credit, executing capital market strategies, or holding assets equal to the statutory reserve credit in a trust. However, our ability to successfully execute these strategies may depend on market or other conditions.

Prudential Securities Group

As a result of the negative impact of market dislocations on capital levels within Prudential Insurance experienced during 2008, we contributed Prudential Securities Group, LLC to Prudential Insurance to strengthen capital during the fourth quarter of 2008. This contribution increased Prudential Insurance s net admitted assets by $2.2 billion.

Prudential Securities Group owns our investment in the Wachovia Securities joint venture, which we account for under the equity method, as well as other wholly owned businesses, principally our global commodities group. As of June 30, 2009 and December 31, 2008, Prudential Securities Group s assets totaled $7.3 billion and $10.4 billion, respectively. Distributions from our investment in Wachovia Securities to Prudential Securities Group totaled $104 million for the six months ended June 30, 2008. There have been no distributions in 2009.

On July 1, 2003, we combined our retail securities brokerage and clearing operations with those of Wachovia Corporation (Wachovia) and formed Wachovia Securities, a joint venture currently headquartered in St. Louis, Missouri. On October 1, 2007, Wachovia completed the acquisition of A.G. Edwards, Inc. and on January 1, 2008 contributed the retail securities brokerage business of A.G. Edwards to the joint venture. Wachovia s contribution of this business entitled us to elect a lookback option (which we elected) permitting

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us to delay for a period of two years ending on January 1, 2010 our decision whether or not to make payments to avoid or limit dilution of our initial 38% ownership interest in the joint venture or, alternatively, to put our joint venture interests to Wachovia based on the appraised value of the joint venture, excluding the A.G. Edwards business, as of January 1, 2008. Subsequently, Wachovia was acquired by Wells Fargo, which succeeded to the rights and obligations of Wachovia under the joint venture agreements. Wachovia Securities is now using the Wells Fargo Advisors name.

On December 4, 2008, we announced our intention to exercise our right under the lookback option to put our joint venture interests to Wells Fargo. On June 17, 2009, we provided notice to Wells Fargo of our exercise of our lookback put rights. Under the terms of the joint venture agreements, we expect that the closing of the put transaction would occur on or about January 1, 2010.

Under the terms of the joint venture agreements, Wells Fargo may elect to pay the proceeds from our exercise of the lookback put either in cash, Wells Fargo common stock or a combination of the foregoing. We have received notice from Wells Fargo that it intends to pay the proceeds in an unspecified combination of cash and Wells Fargo common stock. Under the terms of the agreements relating to the joint venture, the number of shares of Wells Fargo common stock to be received by us will be determined by dividing the portion of the proceeds to be paid in Wells Fargo common stock by the average of the closing prices of the Wells Fargo common stock during the 10 trading day period immediately prior to the closing. The joint venture agreements provide that the Company and Wells Fargo will enter into a registration rights agreement for the registration under the Securities Act of 1933 of the Wells Fargo shares to be received at the closing.

We will bear the risk of changes in the market value of the portion of the payment received at closing in Wells Fargo common stock until such stock is disposed of. We are evaluating our options for mitigating potential reductions in the ultimate proceeds from any common stock received at closing. Our ability to hedge such market risk may be limited and our ability to dispose of such stock will be subject to securities law and other restrictions.

We have estimated the proceeds from the exercise of the lookback put to be approximately $5 billion, based on a January 1, 2010 closing, the terms of the joint venture agreements and our assessment of market conditions and retail brokerage firm valuations at the relevant valuation date of January 1, 2008, producing an estimated gain upon settlement of approximately $2.7 billion or about $1.8 billion on an after-tax basis; however, the amount of such proceeds and gain have not been finally determined and could be more or less. The after-tax gain on sale would be reflected in the capital and surplus of Prudential Insurance.

Notwithstanding the terms of the joint venture agreements governing the lookback put, we have from time to time had discussions with Wells Fargo concerning a possible early settlement of the lookback put. The proceeds received upon any early settlement would take into account the time value of money, the benefits and certainty provided by an early resolution and the form of consideration to be received. Taking into account these factors, it could be expected that we may agree to an amount less than our $5 billion estimate in an early settlement. Absent an early settlement, we will proceed with the closing of the lookback put transaction in accordance with the relevant terms of the joint venture agreements as discussed above.

The other wholly-owned businesses in Prudential Securities Group, principally our global commodities group, continue to maintain sufficiently liquid balance sheets, consisting mostly of cash and cash equivalents, segregated client assets, and short-term receivables from clients, broker-dealers, and exchanges. As registered broker-dealers and members of various self-regulatory organizations, our U.S. registered broker-dealer subsidiaries and Wachovia Securities are subject to the SEC s Uniform Net Capital Rule, as well as the net capital requirements of the Commodity Futures Trading Commission and the various securities and commodities exchanges of which they are members. Compliance with these capital requirements could limit the ability of these operations to pay dividends.

International Insurance and Investments Subsidiaries

In our international insurance operations, liquidity is provided through 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 June 30, 2009 and December 31, 2008, our international insurance subsidiaries had total general account insurance related liabilities (other than dividends payable to policyholders) of $67.4 billion and $64.9 billion, respectively. Of those amounts, $37.1 billion and $34.7 billion, respectively, were associated with Gibraltar Life.

Concurrent with our acquisition of Gibraltar Life in April 2001, substantially all of its insurance liabilities were restructured under a plan of reorganization to include special surrender penalties on existing policies. These charges, which were initially 15%, but have gradually declined each year to their current 0% level as of April 2009, were designed to mitigate the extent, timing, and profitability impact of withdrawals of funds by customers. We did not experience any material increases in the level of surrenders due to the expiration of these surrender charges. Policies issued by Gibraltar Life post-acquisition are generally subject to discretionary withdrawal at contract value, less applicable surrender charges, which currently start at 5% or more.

A special dividend to certain Gibraltar Life policyholders was payable in 2005 and the final dividend will be payable in the latter half of 2009. The special dividend is 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. As of June 30, 2009, a liability of $458 million related to the special dividend is included in Policyholders dividends. The special dividend will take the form of additional policy values, and to a lesser extent, cash. Gibraltar Life s investment portfolio is structured to provide adequate liquidity for the special dividend.

Prudential of Japan had $24.5 billion and $24.9 billion of general account insurance related liabilities, other than dividends to policyholders, as of June 30, 2009 and December 31, 2008, respectively. Prudential of Japan did not have a material amount of general account annuity reserves or deposit liabilities subject to discretionary withdrawal as of June 30, 2009 or December 31, 2008. Additionally, we believe that the individual life insurance policies sold by Prudential of Japan do not have significant withdrawal risk because policyholders may incur surrender charges and must undergo a new underwriting process in order to obtain a new insurance policy.

As of June 30, 2009 and December 31, 2008, our international insurance subsidiaries had cash and short-term investments of $2.6 billion and $2.7 billion, respectively, and fixed maturity investments, other than those designated as held to maturity, with fair values of $50.1 billion and $48.8 billion, respectively. As of June 30, 2009, $48.8 billion, or 97%, of the fixed maturity investments that are not designated as held to maturity within our international insurance subsidiaries were rated investment grade. The remaining $1.3 billion, or 3%, of these fixed maturity investments were rated non-investment grade. Of those amounts, $26.8 billion of the investment grade fixed maturity investments and $0.9 billion of the non-investment grade fixed maturity investments were associated with Gibraltar Life. We consider attributes of the various categories of liquid assets (for example, type of asset and credit quality) in calculating internal liquidity measures to evaluate the adequacy of our international insurance operations liquidity under stress scenarios. We believe that ongoing operations and the liquidity profile of our international insurance assets provide sufficient liquidity under reasonably foreseeable stress scenarios.

Similar to the RBC ratios that are employed by U.S. insurance regulators, regulatory authorities in the international jurisdictions in which we operate generally establish some form of minimum solvency margin

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requirements for insurance companies. All of our international insurance subsidiaries have solvency margins in excess of the minimum levels required by the applicable regulatory authorities. These solvency margins are also the primary measure by which we evaluate the capital adequacy of our international insurance operations. We manage these solvency margins to a capitalization level consistent with our AA ratings target. During the fourth quarter of 2008 and continuing into the first quarter of 2009, market conditions negatively impacted the level of capital in our international life insurance subsidiaries, particularly in Japan. To maintain our solvency ratios at or above the desired target level, we made capital contributions and capital loans of $366 million to our Japan life insurance subsidiaries during the first quarter of 2009. Maintenance of our solvency ratios at certain levels is also important to our competitive positioning, as in certain jurisdictions, such as Japan, these solvency margins are required to be disclosed to the public and therefore impact the public perception of an insurer s financial strength.

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. As of June 30, 2009, the Statement of Financial Position of Prudential Financial reflects $2.3 billion of assets and $2.3 billion of liabilities related to Yamato. Subsequent to the acquisition, we renamed the acquired company Prudential Financial of Japan Life Insurance Company Ltd.

We employ various hedging strategies to manage potential exposure to foreign currency exchange rate movements, including the strategies discussed in Results of Operations for Financial Services Businesses by Segment International Insurance and Investments Division. Cash settlements from these hedging activities result in cash flows to or from Prudential Financial and are dependent on changes in foreign currency exchange rates and the notional amount of the exposures hedged. The cash settlements include those for internal hedges related to U.S. dollar denominated investments held on the books of the yen-based entities, as well as for external hedges. A significant yen appreciation over an extended period of time would result in net cash outflows from Prudential Financial in excess of our historical experience. During the second quarter of 2009, we terminated our hedges of the U.S. GAAP equity exposure of our Korean operations due to a variety of considerations, including a desire to limit the potential for cash settlement outflows that would result from a strengthening Korean won.

In our international investment operations, liquidity is provided through asset management fees as well as commission revenue. The principal uses of liquidity include general and administrative expenses, and distributions of dividends and returns of capital. As with our domestic operations, the primary liquidity risks for our fee based asset management businesses relate to their profitability, which is impacted by market conditions and our investment management performance. We believe cash flows from our international investment subsidiaries are adequate to satisfy the current liquidity requirements of their operations, as well as requirements that could arise under foreseeable stress scenarios, which are monitored through the use of internal measures.

Asset Management Subsidiaries

Our asset management businesses, which include real estate, public and private fixed income and public equity asset management, as well as commercial mortgage origination and servicing, and retail investment products, such as mutual funds and other retail services, are largely unregulated from the standpoint of dividends and distributions. Our asset management subsidiaries through which we conduct these businesses generally do not have restrictions on the amount of distributions they can make, and the fee based asset management business can provide a relatively stable source of cash flow to Prudential Financial.

The principal sources of liquidity for our fee-based asset management businesses include asset management fees and commercial mortgage servicing fees. The principal uses of liquidity include general and administrative expenses, and distribution of dividends and returns of capital to Prudential Financial. The primary liquidity risks for our fee based asset management businesses relate to their profitability, which is impacted by market conditions and our investment management performance. We believe the cash flows from our fee based asset

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management businesses are adequate to satisfy the current liquidity requirements of their operations, as well as requirements that could arise under foreseeable stress scenarios, which are monitored through the use of internal measures.

The principal sources of liquidity for our proprietary investments and interim loans are cash flows from investments, the ability to liquidate investments, and available borrowing lines from internal sources, including Prudential Funding and Prudential Financial. The primary liquidity risks include the inability to sell assets in a timely manner, declines in the value of assets and credit defaults. The current adverse market conditions have increased the liquidity risks associated with our proprietary investments and interim loans. The markets for certain investments, such as commercial mortgages and real estate, have become less liquid. 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. In the fourth quarter of 2008, two entities within the Asset Management segment made a request to redeem their entire investment from a proprietary fixed income fund, which aggregate investments were $170 million as of March 31, 2009. In the second quarter of 2009, we transferred $11 million of our investment to an affiliate and the remaining investment was redeemed as of June 30, 2009.

In December 2008, we received approval from the NJDOBI for Prudential Insurance to provide an 18-month $1.5 billion lending facility to our commercial mortgage operation that is collateralized primarily by its interim loan portfolio. As of June 30, 2009, we are in compliance with the loan-to-value covenant of the facility. There is a risk that further deterioration in the collateral pledged under the facility could require posting of additional collateral or a partial pay down of the facility to bring the facility into compliance with its covenants. In December 2008, the facility was executed and the proceeds were used to repay financing provided by Prudential Financial. As of June 30, 2009, $0.8 billion was outstanding under this arrangement.

In April 2009, our commercial mortgage origination and servicing business received approval to participate in a Fannie Mae alternative delivery program known as ASAP Plus (As Soon as Pooled delivery). Our approval limit for outstanding balances on ASAP Plus is presently $350 million. This program allows us to assign a qualified Fannie Mae loan trade commitment to Fannie Mae as early as the next business day after a loan closes, and receive 99% of the loan purchase price from Fannie Mae. The program does not eliminate the need to provide temporary warehouse financing, but does significantly reduce the duration of funding requirements for eligible Fannie Mae originated loans from the normal delivery cycle of two to four weeks down to as little as one to two days.

During the first half of 2009, in our proprietary investing business, we received repayments of real estate loans secured by equity commitments from investors and assets of funds managed by us, and we reduced exposure to certain public equity and real estate seed investments. The proceeds of these activities, which totaled $769 million, were used to repay financing provided by Prudential Financial and Prudential Funding.

Certain real estate funds under management are held for the benefit of clients in insurance company separate accounts sponsored by Prudential Insurance. In the normal course of business, these separate accounts enter into purchase commitments which include commitments to purchase real estate, invest in future real estate partnerships, and/or fund additional construction or other expenditures on previously acquired real estate investments. Certain purchases of real estate are contingent on the developer s development of the real estate according to plans and specifications outlined in a pre-sale agreement or the property achieving a certain level of leasing. Purchase commitments are typically entered into by Prudential Insurance on behalf of the particular separate account and, upon acquisition, are titled either in Prudential Insurance or an LLC subsidiary formed for that purpose. In certain cases, the commitments specify that recourse on the obligation is limited to the assets of the separate account.

The following is a summary of the outstanding purchase commitments for these separate account portfolios as of June 30, 2009:

	Contractual Maturity Date			
Separate Account Purchase Commitments	Remaining 2009	2010	After 2010	Total
	(in millions)			
Recourse to Prudential Insurance	$ 1,152	$ 2,311	$ 1,062	$ 4,525
Recourse limited to assets of separate accounts	1,756	1,857	1,933	5,546
Total	$ 2,908	$ 4,168	$ 2,995	$ 10,071

The contractual maturity dates of some of the outstanding purchase commitments may accelerate upon a failure to maintain required loan-to-value ratios, upon the downgrade of ratings applicable to the separate account funds or upon the failure to satisfy other financial covenants. Of the $10.1 billion of total commitments, $6.2 billion represents commitments that are not reflected on our balance sheet as of June 30, 2009.

These separate accounts have also entered into syndicated credit facilities providing for borrowings in the aggregate amount of $1.0 billion, of which $0.4 billion was outstanding at June 30, 2009. These facilities also include loan-to-value ratio requirements and other financial covenants. Recourse on obligations under these facilities is limited to the assets of the applicable separate account. As of June 30, 2009, these separate account portfolios had a combined gross and net asset value of $25.0 billion and $12.9 billion, respectively.

At the time of maturity of a commitment obligation, Prudential Insurance often endeavors to negotiate extensions, refinancings or other solutions with creditors. Management believes that the separate accounts have sufficient resources to ultimately meet their obligations. However, because of the volatility and disruption in the credit and capital markets, the separate accounts may not be able to timely fund all maturing obligations from regular sources such as asset sales, operating cash flow, deposits from clients, debt refinancings or from the above-mentioned portfolio level credit facilities. In cases where the separate account is not able to fund maturing obligations, Prudential Insurance may be called upon or required to provide interim funding solutions.

As of June 30, 2009 and December 31, 2008, our asset management subsidiaries had cash and cash equivalents and short-term investments of $1.137 billion and $1.192 billion, respectively, which include $376 million and $462 million of loans secured by investor equity commitments or fund assets, respectively.

Financing Activities

In March 2009, Prudential Financial filed a shelf registration statement with the SEC, which permits the issuance of public debt, equity and hybrid securities. As a Well-Known Seasoned Issuer under SEC rules, Prudential Financial s shelf registration statement provides for automatic effectiveness upon filing, pay-as-you-go fees and the ability to add securities by filing automatically effective amendments. Also, in accordance with these rules, the shelf registration statement has no stated issuance capacity.

In June 2009, Prudential Financial issued 36,858,975 shares of its Common Stock (which number includes the exercise in full of the underwriters option to purchase up to an additional 4,807,692 shares of Common Stock) in a public offering at a price of $39.00 per share for gross proceeds of $1.438 billion. The net proceeds from this offering of $1.391 billion are expected to be used for general corporate purposes and are currently held in cash at Prudential Financial.

As of June 30, 2009 and December 31, 2008, total short- and long-term debt of the Company on a consolidated basis was $24.6 billion and $30.8 billion, respectively, which as shown below includes $13.7 billion and $16.6 billion, respectively, related to the parent company, Prudential Financial.

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Prudential Financial Borrowings

Prudential Financial is authorized to borrow funds from various sources to meet its capital and other funding needs, as well as the capital and other funding needs of its subsidiaries. The following table sets forth the outstanding short- and long-term debt of Prudential Financial, other than debt issued to consolidated subsidiaries, as of the dates indicated:

	June 30, 2009	December 31, 2008
	(in millions)	
Borrowings:		
General obligation short-term debt:		
Commercial paper	$ 505	$ 1,243
Floating rate convertible senior notes	87	2,131
Foreign currency denominated bridge loan facility		816
Current portion of long-term debt	55	264
General obligation long-term debt:		
Senior debt	8,228	7,255
Junior subordinated debt (hybrid securities)	1,518	1,518
Retail medium-term notes	3,356	3,413
Total general obligations	$ 13,749	$ 16,640

The following table presents, as of June 30, 2009, Prudential Financial s contractual maturities of its general obligation long-term debt:

Calendar Year	Senior Debt	Junior Subordinated Debt	Retail Medium-term Notes
		(in millions)	
2010	$	$	$ 12
2011	350		134
2012	250		147
2013	1,100		234
2014	1,500		140
2015 and thereafter	5,028	1,518	2,689
Total	$ 8,228	$ 1,518	$ 3,356

In March 2009, Prudential Financial filed an updated prospectus supplement for its Medium-Term Notes, Series D program under the shelf registration statement. The authorized issuance capacity under the Series D program is $10 billion, and as of June 30, 2009, approximately $4.1 billion remained available under the current program. In June 2009, Prudential Financial issued $250 million of 6.20% medium-term notes due January 2015 and $750 million of 7.375% 10-year medium-term notes under this program. A portion of the proceeds was used to replace borrowing needs of our affiliates that were previously financed through commercial paper, and the remainder is held in cash at Prudential Financial for general corporate purposes. The weighted average interest rates on Prudential Financial s medium-term and senior notes, including the effect of interest rate hedging activity, were 5.54% and 5.45% for the six months ended June 30, 2009 and 2008, respectively, excluding the effect of debt issued to consolidated subsidiaries.

In March 2009, Prudential Financial filed an updated prospectus supplement under the shelf registration statement for its retail medium-term notes, including the InterNotes® program. The authorized issuance capacity under the current retail medium-term notes program is $5 billion, and as of June 30, 2009, approximately $2.4 billion remained available under this program. This retail medium-term notes program has served as a funding source for a product of our Retirement segment for which we earn investment spread that is economically similar

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to funding agreement-backed medium-term notes issued to institutional investors, except that the retail notes are senior unsecured obligations of Prudential Financial and are primarily purchased by retail investors. However, beginning in the first quarter of 2009, some of the proceeds from prior sales of retail medium-term notes are being used for general corporate purposes and funding agreements issued to the FHLBNY are being used as a substitute funding source for the asset portfolio within the Retirement segment, as discussed in more detail in Prudential Financial Alternative Sources of Liquidity Federal Home Loan Bank of New York. The weighted average interest rates on Prudential Financial s retail medium-term notes were 5.65% and 5.97% for the six months ended June 30, 2009 and 2008, respectively, excluding the effect of debt issued to consolidated subsidiaries. Our retail medium-term notes program has been negatively impacted by the disruptions in the credit markets. The decline in demand for risk-bearing investments among retail investors, and the related increase in funding costs, has resulted in a halt in new debt issuances under this program. As the market dislocations abate and investor demand improves, we may resume issuances under the program.

In February 2009, Prudential Financial repaid at maturity ¥74 billion borrowed under unsecured bridge loan facilities provided by two institutions using internal sources of cash. The net proceeds had been used to repay maturing debt that was issued concurrently with our acquisition of Gibraltar Life in April 2001, which served to fund capital requirements of Gibraltar Life. This requirement is now funded through a combination of borrowings from the FHLBNY, long-term debt of Prudential Funding, and internal sources of cash.

In June 2008, Prudential Financial issued $600 million of 8.875% fixed-to-floating rate junior subordinated notes to institutional investors. Also in June 2008, Prudential Financial issued $800 million of junior subordinated notes to retail investors with a fixed interest rate of 9.0% paid quarterly and issued an additional $120 million of the retail junior subordinated notes in July 2008, following the underwriters exercise of their over-allotment option. Both issuances are considered hybrid capital securities, which receive enhanced equity treatment from the rating agencies. Both series of notes have a scheduled maturity of June 15, 2038 and a final maturity of June 15, 2068. See Note 12 to our Consolidated Financial Statements included in our 2008 Annual Report on Form 10-K for additional information concerning these junior subordinated notes.

In December 2007, Prudential Financial issued in a private placement $3 billion of floating rate convertible senior notes. These notes are convertible by the holders at any time after issuance into cash and shares of Prudential Financial s Common Stock. The conversion price, $132.39 per share, is subject to adjustment upon certain corporate events. The conversion feature requires net settlement in shares; therefore, upon conversion, a holder would receive cash up to the par amount of the convertible notes surrendered for conversion and shares of Prudential Financial Common Stock only for the portion of the settlement amount in excess of the par amount, if any. The interest rate on these notes is a floating rate equal to 3-month LIBOR minus 1.63%, with a minimum interest rate of 0%, to be reset quarterly. These notes are redeemable by Prudential Financial, at par plus accrued interest, on or after June 16, 2009. Holders of the notes may also require Prudential Financial to repurchase the notes, at par plus accrued interest, on contractually specified dates, of which the first such date was June 15, 2009. On June 15, 2009, $1.819 billion of these notes were repurchased by Prudential Financial as required by the holders. The next date on which holders of these notes may require Prudential Financial to repurchase these notes is December 15, 2009. We have and may again in the future, depending on economic considerations, also choose to repurchase portions of the outstanding notes from certain qualified institutional buyers. During the fourth quarter of 2008 and the first quarter of 2009, we repurchased, in individually negotiated transactions, $853 million and $245 million, respectively, of these notes which were offered to the Company by certain holders. As of June 30, 2009, $83 million of these floating rate convertible senior notes remain outstanding. In addition, as of June 30, 2009, $4 million of floating rate convertible senior notes that were issued by Prudential Financial in a private placement in December 2006 remain outstanding. The next date on which holders of these notes may require Prudential Financial to repurchase these notes is December 12, 2009. See Note 12 to our Consolidated Financial Statements included in our 2008 Annual Report on Form 10-K for additional information concerning convertible senior notes.

Prudential Financial also maintains a Euro medium term notes program under which it is authorized to issue up to $1.5 billion of notes. As of June 30, 2009, there was no debt outstanding under this program.

Consolidated Borrowings

Current capital markets activities for the Company on a consolidated basis principally consist of unsecured short-term and long-term debt borrowings issued by Prudential Funding and Prudential Financial, unsecured third party bank borrowings, and asset-based or secured financing. As of June 30, 2009, we were in compliance with all debt covenants related to the borrowings in the table below.

The following table sets forth total consolidated borrowings of the Company as of the dates indicated:

	June 30, 2009	**December 31, 2008**
	(in millions)	
Borrowings:		
General obligation short-term debt(1)	$ 3,608	$ 10,197
General obligation long-term debt:		
Senior debt	11,905	11,054
Junior subordinated debt (hybrid securities)	1,518	1,518
Surplus notes(3)	3,641	3,644
Other(2)	1,000	2,000
Total general obligation long-term debt	18,064	18,216
Total general obligations	21,672	28,413
Limited and non-recourse borrowing:		
Limited and non-recourse short-term debt	35	338
Limited and non-recourse long-term debt(4)	2,917	2,074
Total limited and non-recourse borrowing	2,952	2,412
Total borrowings(5)	24,624	30,825
Total asset-based financing	11,059	12,551
Total borrowings and asset-based financings	$ 35,683	$ 43,376

(1) As of both June 30, 2009 and December 31, 2008 $1.0 billion of short-term debt represent collateralized advances with the Federal Home Loan Bank of New York, which are discussed in more detail in Prudential Financial Alternative Sources of Liquidity Federal Home Loan Bank of New York.

(2) Reflects collateralized advances with the Federal Home Loan Bank of New York, which are discussed in more detail in Prudential Financial Alternative Sources of Liquidity Federal Home Loan Bank of New York.

(3) As of both June 30, 2009 and December 31, 2008, includes $3.2 billion, of floating rate surplus notes issued by subsidiaries of Prudential Insurance to fund regulatory reserves, as well as $441 million and $444 million, respectively, of fixed rate surplus notes issued by Prudential Insurance.

(4) As of both June 30, 2009 and December 31, 2008, $1.750 billion of limited and non-recourse long-term debt outstanding was attributable to the Closed Block Business. In addition, long-term debt as of June 30, 2009 reflects $1.167 million of secured financing related to TALF, which is discussed in more detail below.

(5) Does not include $6.7 billion and $7.1 billion of medium-term notes of consolidated trust entities secured by funding agreements purchased with the proceeds of such notes as of June 30, 2009 and December 31, 2008, respectively, or $1.5 billion of collateralized funding agreements issued to the Federal Home Loan Bank of New York as of June 30, 2009. These notes and funding agreements are included in Policyholders account balances. For additional information on the trust notes, see Funding Agreement Notes Issuance Program and for additional information on the Federal Home Loan Bank of New York funding agreements, see Alternative Sources of Liquidity Federal Home Loan Bank of New York.

Total general debt obligations decreased by $6.7 billion from December 31, 2008 to June 30, 2009, primarily due to a reduction in short-term debt. The primary drivers of the reduction in short-term debt were the reduction in outstanding Prudential Financial and Prudential Funding commercial paper, as further described in

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Alternative Sources of Liquidity, the repayment of ¥74 billion borrowed under unsecured bridge loan facilities described earlier, the repurchases of a portion of our convertible senior notes and maturities of our medium-term notes.

During the first six months of 2009, we purchased securities under the Federal Reserve s Term Asset-Backed Securities Loan Facility, or TALF. TALF provides secured financing for asset-backed securities backed by certain types of consumer and small business loans and (as of July 2009) for certain high-quality commercial mortgage-backed securities issued before January1, 2009. TALF financing is non-recourse to the borrower, is collateralized by the purchased securities and provides financing for the purchase price of the securities, less a haircut that varies based on the type of collateral. Borrowers under the program can deliver the collateralized securities to a special purpose vehicle created by Federal Reserve in full defeasance of the loan.

As of June 30, 2009, we had $1.250 billion of securities purchased under TALF that are reflected within Other trading account assets, and had $1.167 billion of secured financing from the Federal Reserve related to the purchase of these securities that is reflected within Long-term debt. We are carrying the securities at fair value as SFAS No. 115 trading assets and the loan at fair value under the fair value option afforded by SFAS No. 159.

The NAIC has adopted a Model Regulation entitled Valuation of Life Insurance Policies, commonly known as Regulation XXX, and a supporting Guideline entitled The Application of the Valuation of Life Insurance Policies, commonly known as Guideline AXXX. The Regulation and supporting Guideline require insurers to establish statutory reserves for term and universal life insurance policies with long-term premium guarantees that are consistent with the statutory reserves required for other individual life insurance policies with similar guarantees. Many market participants believe that this level of reserves is excessive, and we have implemented reinsurance and capital management actions to mitigate the impact of Regulation XXX and Guideline AXXX on our term and universal life insurance businesses, including those actions which are described in more detail below.

During 2006, a subsidiary of Prudential Insurance entered into a surplus note purchase agreement with an unaffiliated financial institution that provides for the issuance of up to $3 billion of ten-year floating rate surplus notes through 2016, if certain conditions are met (commonly referred to as XXX notes), for the purpose of financing certain regulatory reserves required to be held by subsidiary life insurers in connection with the intercompany reinsurance of certain term life insurance policies. In connection with this financing arrangement, Prudential Financial has agreed with such subsidiary that it or certain of its affiliates will make capital contributions to such subsidiary as necessary to maintain the capital of such subsidiary at or above a prescribed minimum level. Concurrent with the issuance of each surplus note, Prudential Financial enters into arrangements with the buyer, which are accounted for as derivative instruments, that may result in payments by, or to, Prudential Financial over the term of the surplus notes, to the extent there are significant changes in the value of the surplus notes. Principal factors that impact the value of the surplus notes are mortality experience and interest rates. As of June 30, 2009, there have been no payments made under the derivative instrument. Surplus notes issued under this facility are subordinated to policyholder obligations and are subject to regulatory approvals for principal and interest payments. Total outstanding notes under this facility was $2.7 billion both as of June 30, 2009 and December 31, 2008. See Note 12 to our Consolidated Financial Statements included in our 2008 Annual Report on Form 10-K for additional information.

During 2007, a subsidiary of Prudential Insurance issued $500 million of 45-year floating rate surplus notes (commonly referred to as AXXX notes) to an unaffiliated financial institution for the purpose of financing certain regulatory reserves required to be held by subsidiary life insurers in connection with the intercompany reinsurance of certain universal life insurance policies. Surplus notes issued under this facility are subordinated to policyholder obligations and are subject to regulatory approvals for principal and interest payments. See Note 12 to our Consolidated Financial Statements included in our 2008 Annual Report on Form 10-K for additional information. In connection with this financing arrangement, Prudential Financial has agreed with such subsidiary that it or certain of its affiliates will make capital contributions to such subsidiary as necessary to maintain the capital of such subsidiary at or above a prescribed minimum level. Concurrent with the issuance of these surplus notes, Prudential Financial entered into a credit derivative that requires Prudential Financial to make certain payments in the event of deterioration in the value of the surplus note. Under this credit derivative, we are required 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 June 30, 2009, when estimates of Prudential Financial s 10-year credit default swap spreads were approximately 490 basis points, we had posted $53 million of collateral under this agreement.

As we continue to underwrite term and universal life business, we expect to have borrowing needs in 2009 to finance statutory reserves required under Regulation XXX and Guideline AXXX. Several strategies are currently under review to reduce the strain of increased AXXX and XXX statutory reserves associated with our term and universal life products. The activities we may undertake to mitigate or address these needs include obtaining letters of credit, entering into reinsurance transactions or executing other capital market strategies; however, our ability to successfully execute these strategies may depend on market conditions. Further, we have $300 million currently available under our XXX notes facility described above. Absent any successful mitigation efforts and assuming full usage of the XXX notes facility, we currently believe that our financing need for 2009 could be up to $200 million for XXX and AXXX combined, but this amount may fluctuate due to changes in market conditions or product sales. If we are unsuccessful in satisfying or mitigating this strain as a result of market conditions or otherwise, this financing need could have an adverse effect on our overall liquidity and capital and could require us to increase prices and/or reduce our sales of term or universal life products.

Our total borrowings consist of capital debt, investment related debt, securities business related debt and debt related to specified other businesses. Capital debt is borrowing that is 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. Investment related borrowings consist of debt issued to finance specific investment assets or portfolios of investment assets, including institutional spread lending investment portfolios, real estate and real estate related investments held in consolidated joint ventures, as well as institutional and insurance company portfolio cash flow timing differences. Securities business related debt consists of debt issued to finance primarily the liquidity of our broker-dealers and our capital markets and other securities business related operations. Debt related to specified other businesses consists of borrowings associated with our individual annuity business, real estate franchises and relocation services. Borrowings under which either the holder is entitled to collect only against the assets pledged to the debt as collateral, or has only very limited rights to collect against other assets, have been classified as limited and non-recourse debt. Consolidated borrowings as of both June 30, 2009 and December 31, 2008 included $1.750 billion of limited and non-recourse debt attributable to the Closed Block Business.

The following table summarizes our borrowings, categorized by use of proceeds, as of the dates indicated:

	June 30, 2009	December 31, 2008
	(in millions)	
General obligations:		
Capital debt	$ 8,004	$ 7,535
Investment related	10,378	16,480
Securities business related	2,643	3,356
Specified other businesses	647	1,042
Total general obligations	21,672	28,413
Limited and non-recourse debt	2,952	2,412
Total borrowings	$ 24,624	$ 30,825
Short-term debt	$ 3,643	$ 10,535
Long-term debt	20,981	20,290
Total borrowings	$ 24,624	$ 30,825
Borrowings of Financial Services Businesses	$ 22,874	$ 28,632
Borrowings of Closed Block Business	1,750	2,193
Total borrowings	$ 24,624	$ 30,825

Funding Agreement Notes Issuance Program

In 2003, Prudential Insurance established a Funding Agreement Notes Issuance Program pursuant to which a Delaware statutory trust issues medium-term notes (which are included in our statements of financial position in Policyholders account balances and not included in the foregoing table) secured by funding agreements issued to the trust by Prudential Insurance and included in our Retirement segment. The funding agreements provide cash flow sufficient for the debt service on the related medium-term notes. The medium-term notes are sold in transactions not requiring registration under the Securities Act of 1933, as amended. The notes have fixed or floating interest rates and original maturities ranging from two to seven years. As of June 30, 2009 and December 31, 2008, the outstanding aggregate principal amount of such notes totaled $6.7 billion and $7.1 billion, respectively, out of a total authorized amount of up to $15 billion. The decrease in outstanding aggregate principal amount of such notes is due to maturities in excess of issuances during the first half of 2009. Given the current market environment, our ability to issue new notes during the first half of 2009 has been negatively impacted. The aggregate maturities of these notes over the next 12 months are approximately $3.3 billion. We intend to repay the maturing notes through a combination of cash flows from asset maturities, asset sales, new liability origination and internal sources of funds.

Lines of Credit and Other Credit Facilities

As of June 30, 2009, Prudential Financial, Prudential Insurance and Prudential Funding had unsecured committed lines of credit totaling $4.34 billion. These facilities are available to each of the borrowers, up to the aggregate committed credit, to be used for general corporate purposes. This amount includes a $1.94 billion 5-year credit facility that expires in May 2012, which includes 20 financial institutions, and a $2.4 billion credit facility, of which $200 million expires in December 2011 and $2.2 billion expires in December 2012, which includes 18 financial institutions. The available credit and number of lenders reflects the removal in January 2009 of Lehman Commercial Paper Inc. and Lehman Brothers Bank FSB as participants in these facilities. Lehman Commercial Paper Inc., which filed for bankruptcy in October 2008, had been a participant in the amount of $60 million and Lehman Brothers Bank FSB had been a participant in the amount of $100 million. We maintain these facilities primarily as back up liquidity lines for our commercial paper programs, and there were no outstanding borrowings under either facility as of June 30, 2009. Any borrowings made under these

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outstanding facilities would mature no later than the respective expiration dates of the facilities and would bear interest at the rates set forth in each facility agreement. Within each facility, no single financial institution has more than 15% of the total committed credit.

Our ability to borrow under these facilities is conditioned on the continued satisfaction of customary conditions, including the maintenance at all times by Prudential Insurance of total adjusted capital of at least $5.5 billion based on statutory accounting principles prescribed under New Jersey law and Prudential Financial s maintenance of consolidated net worth of at least $12.5 billion, which for this purpose is based on U.S. GAAP stockholders equity, excluding net unrealized gains and losses on investments. Our ability to borrow under these facilities is not contingent on our credit ratings or subject to material adverse change clauses. As of June 30, 2009, Prudential Insurance s total adjusted capital and Prudential Financial s consolidated U.S. GAAP stockholders equity, excluding net unrealized gains and losses on investments, exceeded the minimum amounts required to borrow under these facilities. We also use uncommitted lines of credit from financial institutions.

Ratings

Claims-paying and credit ratings are important factors affecting public confidence in an insurer and its competitive position in marketing products. National Recognized Statistical Ratings Organizations continually review the financial performance and condition of insurers, including Prudential Insurance and our other insurance company subsidiaries. Our credit ratings are also important for our ability to raise capital through the issuance of debt and for the cost of such financing.

Claims-paying ratings, which are sometimes referred to as financial strength ratings, represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy. Credit ratings represent the opinions of rating agencies regarding an entity s ability to repay its indebtedness. The following table summarizes the ratings for Prudential Financial and certain of its subsidiaries as of the date of this filing.

	A.M. Best(1)	**S&P(2)**	**Moody s(3)**	**Fitch(4)**
Insurance Claims-Paying Ratings:				
The Prudential Insurance Company of America	A+	AA-	A2	A+
PRUCO Life Insurance Company	A+	AA-	A2	A+
PRUCO Life Insurance Company of New Jersey	A+	AA-	NR*	A+
Prudential Annuities Life Assurance Corporation	A+	AA-	NR	A+
Prudential Retirement Insurance and Annuity Company	A+	AA-	A2	A+
The Prudential Life Insurance Company Ltd. (Prudential of Japan)	NR	AA-	NR	NR
Gibraltar Life Insurance Company, Ltd.	NR	AA-	A2	NR
Credit Ratings:				
Prudential Financial, Inc.:				
Short-term borrowings	AMB-1	A-1	P-2	F2
Long-term senior debt(5)	a-	A	Baa2	BBB
Junior subordinated long-term debt	bbb	BBB+	Baa3	BBB-
The Prudential Insurance Company of America:				
Capital and surplus notes	a	A	Baa1	A-
Prudential Funding, LLC:				
Short-term debt	AMB-1	A-1+	P-1	F1
Long-term senior debt	a+	AA-	A3	A
PRICOA Global Funding I:				
Long-term senior debt	aa-	AA-	A2	A+

* NR indicates not rated.

(1) A.M. Best Company, which we refer to as A.M. Best, claims-paying ratings for insurance companies currently range from A++ (superior) to F (in liquidation). A.M. Best s ratings reflect its opinion of an insurance company s financial strength, operating performance and ability to meet its obligations to policyholders. An A.M. Best long-term credit rating is an opinion of the ability of an obligor to pay interest and principal in accordance with the terms of the obligation. A.M. Best long-term credit ratings range from aaa (exceptional) to d (in default), with ratings from aaa to bbb considered as investment grade. An A.M. Best short-term credit rating reflects an opinion of the issuer s fundamental credit quality. Ratings range from AMB-1+, which represents an exceptional ability to repay short-term debt obligations, to AMB-4, which correlates with a speculative (bb) long-term rating.

(2) Standard & Poor s Rating Services, which we refer to as S&P, claims-paying ratings currently range from AAA (extremely strong) to R (regulatory supervision). These ratings reflect S&P s opinion of an operating insurance company s financial capacity to meet the obligations of its insurance policies in accordance with their terms. A + or - indicates relative strength within a category. An S&P credit rating is a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations or a specific financial program. S&P s long-term issue credit ratings range from AAA (extremely strong) to D (default). S&P short-term ratings range from A-1 (highest category) to D (default).

(3) Moody s Investors Service, Inc., which we refer to as Moody s, insurance claims-paying ratings currently range from Aaa (exceptional) to C (lowest). Moody s insurance ratings reflect the ability of insurance companies to repay punctually senior policyholder claims and obligations. Numeric modifiers are used to refer to the ranking within the group with 1 being the highest and 3 being the lowest. These modifiers are used to indicate relative strength within a category. Moody s credit ratings currently range from Aaa (highest) to C (default). Moody s credit ratings grade debt according to its investment quality. Moody s considers A1, A2 and A3 rated debt to be upper medium grade obligations, subject to low credit risk. Moody s short-term ratings are opinions of the ability of issuers to honor senior financial obligations and contracts. Prime ratings range from Prime-1 (P-1), which represents a superior ability for repayment of senior short-term debt obligations, to Prime-3 (P-3), which represents an acceptable ability for repayment of such obligations. Issuers rated Not Prime do not fall within any of the Prime rating categories.

(4) Fitch Ratings Ltd., which we refer to as Fitch, claims-paying ratings currently range from AAA (exceptionally strong) to D (distressed). Fitch s ratings reflect its assessment of the likelihood of timely payment of policyholder and contractholder obligations. Fitch long-term credit ratings currently range from AAA (highest credit quality), which denotes exceptionally strong capacity for timely payment of financial commitments, to D (default). Investment grade ratings range between AAA and BBB. Short-term ratings range from F1 (highest credit quality) to C (high default risk). Within long-term and short-term ratings, a + or a may be appended to a rating to denote relative status within major rating categories.

(5) Includes the retail medium-term notes program.

The ratings set forth above with respect to Prudential Financial, Prudential Funding, LLC, Prudential Insurance and our other insurance and financing subsidiaries reflect current opinions of each rating organization with respect to claims-paying ability, financial strength, operating performance and ability to meet obligations to policyholders or debt holders, as the case may be. These ratings are of concern to policyholders, agents and intermediaries. They are not directed toward shareholders and do not in any way reflect evaluations of the safety and security of the Common Stock. These ratings are reviewed periodically and we cannot assure you that we will maintain our current ratings in the future. Each rating should be evaluated independently of any other rating.

Our claims-paying ratings are an important factor affecting public confidence in most of our products and, as a result, our competitiveness. The interest rates we pay on our borrowings are largely dependent on our credit ratings. A downgrade in the credit or financial strength (i.e., claims-paying) ratings of Prudential Financial or its rated subsidiaries 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 or trading counterparties thereby potentially negatively effecting our profitability, liquidity and/or capital.

In addition, as required by SFAS No. 157, we consider our own risk of non-performance in determining the fair value of our liabilities. Therefore, changes in our credit ratings and our claims-paying ratings, which represent the market s perception of our non-performance risk, will affect the fair value of our liabilities.

Additional collateral requirements or other required payments under certain agreements, including derivative agreements, 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 as of June 30, 2009 would result in estimated additional collateral posting requirements or payments under such agreements of approximately $200 million as of June 30, 2009. The amount of collateral required to be posted for derivative agreements is also dependent on the fair value of the derivative positions as of the balance sheet date. For additional information regarding the potential impacts of a ratings downgrade on our derivative agreements see Note 14 to the Unaudited Interim Consolidated Financial Statements. 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 $1.4 billion, based on the level of statutory reserves related to an acquired business, that we estimate would result in annual cash outflows of approximately $70 million, or collateral posting in the form of cash or securities to be held in a trust. We believe that the posting of such collateral would not be a material liquidity event for Prudential Insurance.

Rating agencies use an outlook statement for both industry sectors and individual companies. For an industry sector, a negative outlook generally implies that over the next 12-18 months, the rating agency expects more downgrades than upgrades among companies in the sector. However, such an outlook does not imply that all, or even a majority of, companies will necessarily experience ratings downgrades. For a particular company, an outlook generally indicates a medium- or long-term trend (generally six months to two years) in credit fundamentals, which if continued, may lead to a rating change. These indicators are not necessarily a precursor of a rating change nor do they preclude a rating agency from changing a rating at any time without notice.

In view of the difficulties experienced recently by many financial institutions, the rating agencies have heightened the level of scrutiny that they apply to such institutions, have increased the frequency and scope of their credit reviews, have requested additional information from the companies that they rate, and may adjust upward the capital and other requirements employed in the rating agency models for maintenance of certain ratings levels, such as the financial strength ratings currently held by our life insurance subsidiaries. In addition, actions we might take to access third party financing or to realign our capital structure may in turn cause rating agencies to reevaluate our ratings.

Provided below is a discussion of the significant changes in our ratings or rating outlooks that occurred from the beginning of 2009 through the date of this filing.

On February 10, 2009, Moody s placed the long-term ratings of Prudential Financial and our life insurance subsidiaries on review for possible downgrade. The short-term ratings of Prudential Financial and Prudential Funding were affirmed with a stable outlook.

On March 18, 2009, Moody s lowered the long-term senior debt rating of Prudential Financial to Baa2 from A3 and lowered the financial strength ratings of our life insurance subsidiaries to A2 from Aa3, with a negative outlook. Moody s also placed the short-term debt rating of Prudential Funding on review for possible downgrade.

On June 26, 2009, Moody s affirmed the long-term senior debt rating of Prudential Financial at Baa2 and the financial strength ratings of our life insurance subsidiaries at A2, and revised the outlook from negative to stable. The short-term debt rating of Prudential Funding remains on review for possible downgrade.

On February 19, 2009, Fitch lowered Prudential Financial s long-term senior debt rating to BBB from A- and the short-term rating to F2 from F Fitch also downgraded the financial strength ratings of the life insurance subsidiaries to A+ from AA- and the short-term rating of Prudential Funding to F1 from F1+. The outlook for all ratings remains negative.

On February 17, 2009, S&P lowered Prudential Financial s long-term senior debt rating to A from A+ and affirmed the AA ratings of our life insurance subsidiaries. The long-term ratings outlook was revised from stable to negative.

On February 26, 2009, S&P lowered the financial strength ratings of our life insurance subsidiaries to AA- from AA and affirmed Prudential Financial s long-term senior debt ratings as A. The outlook for both ratings was revised from negative to stable.

On June 3, 2009, S&P affirmed Prudential Financial s long-term senior debt rating at A and short-term rating at A-1. S&P also affirmed the financial strength ratings of our life insurance subsidiaries at AA- and the short-term debt rating of Prudential Funding at A1+. The outlook for all of these companies remains stable.

On May 27, 2009, A.M. Best affirmed the financial strength ratings of our life subsidiaries at A+, and affirmed Prudential Financial s long-term senior debt rating at a-. The outlook for both was revised from stable to negative.

Off-Balance Sheet Arrangements

Guarantees and Other Contingencies

In the course of our business, we provide certain guarantees and indemnities to third parties pursuant to which we may be contingently required to make payments now or in the future.

A number of guarantees provided by us relate to real estate investments held in our separate accounts, in which the separate account has borrowed funds, and we have guaranteed their obligation to their lender. We provide these guarantees to assist the separate account in obtaining financing for the transaction. Our maximum potential exposure under these guarantees was $1.554 billion as of June 30, 2009, of which all but $278 million is limited to the assets of the separate account for which exposure primarily relates to guarantees limited to fraud, criminal activity or other bad acts. These guarantees generally expire at various times over the next sixteen years. At June 30, 2009, no amounts were accrued as a result our assessment that it is unlikely payments will be required. Any payments that may become required of us under these guarantees would either first be reduced by proceeds received by the creditor on a sale of the underlying collateral, or would provide us with rights to obtain the underlying collateral.

We have also provided a guarantee to a syndication of lenders in connection with a retail development project in Singapore that is 50% co-owned by us and an unconsolidated real estate fund we manage. The principal provisions in the guarantee require that the loan-to-value ratio of the retail development project be maintained at 60% or lower, based on an external appraisal. A loan-to-value ratio in excess of 60% would require us and our co-owner to jointly and severally paydown the loan balance to the 60% level. The current loan-to-value ratio, based on a December 2008 appraisal, is 59.6%. Other obligations under the guarantee include guaranteeing the interest-servicing on the loan on a proportionate basis and undertaking to complete the project and fund all development costs, including cost overruns. Our exposure under the guarantee was $171 million as of June 30, 2009, which assumes the co-owner honors its joint guarantee.

We write credit derivatives under which we are obligated to pay the counterparty the referenced amount of the contract and receive in return the defaulted security or similar security. Our maximum amount at risk under these credit derivatives, assuming the value of the underlying referenced securities become worthless, is $1.168 billion as of June 30, 2009. These credit derivatives generally have maturities of five years or less. See Note 14 to our Unaudited Interim Consolidated Financial Statements for additional information concerning credit derivatives.

Certain contracts underwritten by the Retirement segment include guarantees related to financial assets owned by the guaranteed party. These contracts are accounted for as derivatives, at fair value, in accordance with SFAS No. 133. As of June 30, 2009, such contracts in force carried a total guaranteed value of $6.576 billion. These guarantees are supported by collateral that is not reflected on our balance sheet. This collateral had a fair value of $6.587 billion as of June 30, 2009.

We arrange for credit enhancements of certain debt instruments that provide financing for commercial real estate assets, including certain tax-exempt bond financings. The credit enhancements provide assurances to the debt holders as to the timely payment of amounts due under the debt instruments. As of June 30, 2009, such enhancement arrangements total $220 million, with remaining contractual maturities of up to fifteen years. Our obligation to reimburse required credit enhancement payments is secured by mortgages on the related real estate, which properties are valued at $275 million as of June 30, 2009. We receive certain ongoing fees for providing these enhancement arrangements and anticipate the extinguishment of our obligation under these enhancements prior to maturity through the aggregation and transfer of our positions to a substitute enhancement provider. As of June 30, 2009, we have accrued liabilities of $1 million representing unearned fees on these arrangements.

As part of the commercial mortgage activities of our Asset Management segment, we provide commercial mortgage origination, underwriting and servicing for certain government sponsored entities, such as Fannie Mae and Freddie Mac. We have agreed to indemnify the government sponsored entities for a portion of the credit risk associated with certain of the mortgages we service through a delegated authority arrangement. Under these arrangements, we originate multi-family mortgages for sale to the government sponsored entities based on underwriting standards they specify, and are obligated to make payments to them for a specified percentage share of losses they incur on certain loans we service. Our percentage share of losses incurred generally varies from 2% to 20% of the loan balance, and is typically based on a first-loss exposure for a stated percentage of the loan balance, plus a shared exposure with the government sponsored entity for any losses in excess of the stated first-loss percentage, subject to a contractually specified maximum percentage. We service $7.490 billion of mortgages subject to these loss-sharing arrangements as of June 30, 2009, all of which are collateralized by first priority liens on the underlying multi-family residential properties. As of June 30, 2009, these mortgages had an average debt service coverage ratio of 1.60 times and an average loan-to-value ratio of 69%. The maximum exposure to loss as of June 30, 2009, assuming no recovery on any of the underlying collateral, is $997 million, with first-loss exposure of $317 million. Over the three years ended December 31, 2008, our total share of losses related to indemnifications that were settled was $8 million, with no additional settlements in the first six months of 2009. As of June 30, 2009, we have established a liability of $19 million related to these indemnifications.

In connection with certain acquisitions, we agreed to pay additional consideration in future periods, contingent upon the attainment by the acquired entity of defined operating objectives. As of June 30, 2009, maximum potential future consideration pursuant to such arrangements, to be resolved over the following four years, is $130 million. Any such payments would result in increases in intangible assets, such as goodwill.

We are also subject to other financial guarantees and indemnity arrangements. We have provided indemnities and guarantees related to acquisitions, dispositions, investments and other transactions that are triggered by, among other things, breaches of representations, warranties or covenants provided by us. These obligations are typically subject to various time limitations, defined by the contract or by operation of law, such as statutes of limitation. In some cases, the maximum potential obligation is subject to contractual limitations, while in other cases such limitations are not specified or applicable. Since certain of these obligations are not subject to limitations, it is not possible to determine the maximum potential amount due under these guarantees. As of June 30, 2009, we have accrued liabilities of $5 million associated with all other financial guarantees and indemnity arrangements, which does not include retained liabilities associated with sold businesses.

Other Contingent Commitments

In connection with our commercial mortgage operations, we originate commercial mortgage loans. As of June 30, 2009, we had outstanding commercial mortgage loan commitments with borrowers of $2.022 billion. In certain of these transactions, we prearrange that we will sell the loan to an investor, including to governmental sponsored entities as discussed above, after we fund the loan. As of June 30, 2009, $1.045 billion of our commitments to originate commercial mortgage loans are subject to such arrangements.

We also have other commitments, some of which are contingent upon events or circumstances not under our control, including those at the discretion of our counterparties. These other commitments amounted to $9.879 billion as of June 30, 2009. Reflected in these other commitments are $9.838 billion of commitments to purchase or fund investments, including $6.234 billion that we anticipate will ultimately be funded from our separate accounts. Of these separate account commitments, $2.668 billion have recourse to Prudential Insurance if the separate accounts are unable to fund the amounts when due. For further discussion of these separate account commitments, see Liquidity and Capital Resources of Subsidiaries Asset Management Subsidiaries.

Other Off-Balance Sheet Arrangements

We do not have retained or contingent interests in assets transferred to unconsolidated entities, or variable interests in unconsolidated entities or other similar transactions, arrangements or relationships that serve as credit, liquidity or market risk support, that we believe are reasonably likely to have a material effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or our access to or requirements for capital resources. In addition, we do not have relationships with any unconsolidated entities that are contractually limited to narrow activities that facilitate our transfer of or access to associated assets.

Item 3. ***Quantitative and Qualitative Disclosures About Market Risk***

Market risk is the risk of change in the value of financial instruments as a result of absolute or relative changes in interest rates, foreign currency exchange rates or equity or commodity prices. To varying degrees, the investment and trading activities supporting all of our products and services generate market risks. There have been no material changes in our market risk exposures from December 31, 2008, a description of which may be found in our Annual Report on Form 10-K for the year ended December 31, 2008, Item 7A, Quantitative and Qualitative Disclosures About Market Risk, filed with the Securities and Exchange Commission. See Item 1A, Risk Factors of this Quarterly Report on Form 10-Q for a discussion of how the current difficult conditions in the financial markets and the economy generally may materially adversely affect our business and results of our operations.

Item 4. ***Controls and Procedures***

In order to ensure that the information we must disclose in our filings with the Securities and Exchange Commission is recorded, processed, summarized, and reported on a timely basis, the Company s management, including our Chief Executive Officer and Chief Financial Officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rule 13a-15(e), as of June 30, 2009. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2009, our disclosure controls and procedures were effective. No change in our internal control over financial reporting, as defined in Exchange Act Rule 13a-15(f), occurred during the quarter ended June 30, 2009, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. ***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. 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. In some of our pending legal and regulatory actions, parties are seeking large and/or indeterminate amounts, including punitive or exemplary damages.

In July 2009, an amended consolidated complaint was filed in *Bauer v. Prudential Financial, et al.*, that added claims regarding contingent liability relating to the auction rate securities markets and reserves relating to annuity contract holders. The complaint restates the claims regarding impairments related to mortgage backed securities. The complaint names all of the same defendants as the prior complaints, with the exception of the Company s independent auditors. *Pinchuk v. Prudential Financial, Inc. et al.* was voluntarily dismissed.

In May 2009, the United States District Court for the Central District of California issued a final order approving the settlement of the multi-district litigation that included the *Janowsky, Goldstein, Dewane, DiLustro, Panesenko* and *Badain* matters, and involved wage and hour claims by former PSI and PEG stockbrokers.

In April 2009, a purported nationwide class action, *Schultz v. The Prudential Insurance Company of America*, was filed in the United States District Court for the Northern District of Illinois. Plaintiff, a participant in a defined benefit plan governed by ERISA, alleges that pursuant to the terms of the group disability insurance policy funding her plan benefits, Prudential Insurance may not lawfully offset family social security disability benefits against Prudential contract benefits because social security benefits that members of her family received on account of her disability were not loss of time disability payments. The complaint alleges violations of ERISA, breach of contract and unfair claims practices. Plaintiff seeks recovery of the amount of her disability benefits were reduced by the challenged offset, and additional monetary, declaratory and injunctive relief on behalf of a putative class of similarly situated disability claimants who are covered under other plans or policies governed by ERISA and on behalf of a putative class of similarly situated disability claimants who are participants in plans that are exempt from ERISA.

In May 2009, the Board formed a Special Evaluation Committee, comprised of independent directors, and authorized the Committee to hire outside advisors and experts to assist in its evaluation of the demand by a Prudential Financial stockholder, the Service Employees International Union Pension Plans Master Trust, that the Board take action to recover allegedly improperly paid compensation to certain current and former employees and executive officers.

Our litigation and regulatory matters are subject to many uncertainties, and given their complexity and scope, the outcomes 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 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 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.

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Explanation of Responses:

The foregoing discussion is limited to recent material developments concerning our legal and regulatory proceedings. See Note 15 to the Unaudited Interim Consolidated Financial Statements included herein for additional discussion of our litigation and regulatory matters, including those referred to above.

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 Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2008.

Some of our businesses and our results of operations have been materially adversely affected by the adverse conditions in the global financial markets and economic conditions generally. Our businesses, results of operations and financial condition may be further adversely affected, possibly materially, if these conditions persist or deteriorate.

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

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

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

Markets in the United States and elsewhere have experienced extreme and unprecedented volatility and disruption, with adverse consequences to our liquidity, access to capital and cost of capital. Market conditions such as we have experienced since the second half of 2007 may significantly affect our ability to meet liquidity needs, our access to capital and our cost of capital, including capital that may be required by our subsidiaries. We may seek additional debt or equity capital but be unable to obtain such.

Adverse capital market conditions have affected and may continue to affect the availability and cost of borrowed funds and could impact our ability to refinance existing borrowings, thereby ultimately impacting our

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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 or volatility in the financial markets have limited and may be expected to continue to limit our access to capital required to operate our business, most significantly our insurance operations. These market conditions may 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, 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. Equity offerings would dilute the ownership interest of existing shareholders.

The Risk Based Capital, or RBC, ratio is the primary measure by which we evaluate the capital adequacy of Prudential Insurance, which includes businesses in both the Financial Services Businesses and the Closed Block Business. We have managed Prudential Insurance s RBC ratio to a level consistent with a AA ratings objective; however, rating agencies take into account a variety of factors in assigning ratings to our insurance subsidiaries in addition to RBC levels. RBC is determined by statutory rules that consider risks related to the type and quality of the invested assets, insurance-related risks associated with Prudential Insurance s products, interest rate risks and general business risks. The RBC ratio calculations are intended to assist insurance regulators in measuring the adequacy of Prudential Insurance s statutory capitalization. Subsequent to September 30, 2008, market conditions negatively impacted the level of capital in our domestic life insurance subsidiaries and caused us to take capital management actions to maintain capital consistent with these ratings objectives, which included redeployment of financial resources from internal sources, including the contribution of the subsidiary that holds our minority interest in the Wachovia Securities retail brokerage joint venture to Prudential Insurance. The RBC ratio is an annual calculation; however, based upon June 30, 2009 amounts, the RBC for Prudential Insurance and our other domestic life insurance subsidiaries would exceed the minimum level required by applicable insurance regulations. The level of statutory capital of our domestic life insurance subsidiaries is affected by the statutory account rules for loan-backed and structured securities. Mandatory adoption of changes to these rules was recently deferred until periods ending on or after September 30, 2009. Further changes to these rules by insurance regulators, or the timing of the Company s application of these rules, are possible, given the deferral and other uncertainty around the resolution of these accounting rules.

Disruptions in the capital markets could adversely affect Prudential Financial 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 additional actions, which may include but are not limited to: (1) further access external sources of capital, including the debt or equity markets, as noted above;

(2) reduce or eliminate future shareholder dividends on our Common Stock; (3) utilize further proceeds from our retail medium term notes for general corporate purposes by accelerating repayments of additional funding agreements from Prudential Insurance; (4) undertake additional capital management activities, including reinsurance transactions; (5) transfer ownership of certain subsidiaries of Prudential Financial to Prudential Insurance; (6) take additional actions related to derivatives; (7) limit or curtail sales of certain products and/or restructure existing products; (8) effectuate the repayment of affiliate surplus notes; (9) undertake further asset sales or internal asset transfers; and (10) seek temporary or permanent changes to regulatory rules. Certain of these actions may require regulatory approval and/or agreement of counterparties which are outside of our control or have economic costs associated with them.

We maintain committed unsecured revolving credit facilities that, as of June 30, 2009, totaled $4.34 billion. We rely on these credit facilities as a potential source of liquidity which could be critical in enabling us to meet our obligations as they come due, particularly during periods when alternative sources of liquidity are limited such as in the current market environment. Our ability to borrow under these facilities is conditioned on our satisfaction of covenants and other requirements contained in the facilities, such as Prudential Insurance s maintenance of total adjusted capital of at least $5.5 billion based on statutory accounting principles prescribed under New Jersey law and Prudential Financial s maintenance of consolidated net worth of at least $12.5 billion, which for this purpose is based on U.S. GAAP stockholders equity, excluding net unrealized gains and losses on investments. Our failure to satisfy these and other requirements contained in the credit facilities would restrict our access to the facilities when needed and, consequently, could have a material adverse effect on our financial condition and results of operations.

Our asset management operations include real estate held in Prudential Insurance separate accounts, for the benefit of clients, which enter into forward commitments which typically are funded from separate account assets and cash flows and related funding sources. Owing to the adverse credit and capital market conditions, these separate accounts may have difficulty funding in the normal course commitments due in 2009. In that case, Prudential Insurance might be called upon or required to provide interim funding solutions, which could affect the availability of liquidity for other purposes.

Governmental actions in response to the current financial crisis may not be effective and could subject us to additional regulation. Participation by us in certain of these governmental programs could also result in limitations or restrictions on our businesses or otherwise restrict our flexibility.

In response to the market dislocation affecting the banking system and financial markets, on October 3, 2008, President Bush signed the Emergency Economic Stabilization Act of 2008, or EESA, into law. Pursuant to the EESA, the U.S. Treasury has the authority to, among other things, purchase up to $700 billion of mortgage-backed and other securities from financial institutions for the purpose of stabilizing the financial markets. On October 14, 2008, the U.S. Treasury announced that it would use EESA authority to invest an aggregate of $250 billion (of the first $350 billion released under EESA) in capital issued by qualifying U.S. financial institutions under the U.S. Treasury s Capital Purchase Program, which is part of the Troubled Asset Relief Program, or TARP. The TARP Capital Purchase Program involves the issuance by qualifying institutions of preferred stock and warrants to purchase common stock to the U.S. Treasury. Concurrently, with the announcement of the TARP Capital Purchase Program in coordination with the U.S. Treasury, the Federal Deposit Insurance Corporation, or FDIC announced the Temporary Liquidity Guarantee Program, through which it guarantees certain newly issued senior unsecured debt issued by FDIC insured institutions and their qualifying holding companies, as well as funds over $250,000 in non-interest-bearing transaction deposit accounts. In addition, since March 2008, the Federal Reserve has created several lending facilities to stabilize financial markets including the Term Asset-Backed Securities Loan Facility, or TALF. The TALF is designed to provide secured financing for certain types of asset-backed securities, including (as of July 2009) certain high-quality commercial mortgage-backed securities issued before January 1, 2009.

On February 10, 2009, the U.S. Treasury announced a Financial Stability Plan to build upon existing programs and earmark the second $350 billion of funds that were authorized under the EESA and released in

January 2009. The elements of the Financial Stability Plan, as described by the U.S. Treasury, are a Capital Assistance Program and Financial Stability Trust to make capital available to financial institutions through additional purchases of preferred stock, a Public-Private Investment Program, or PPIP, to buy legacy loans and assets from financial institutions, a Consumer and Business Lending Initiative to restart securitization markets for loans to consumers and businesses by expanding upon TALF, and a comprehensive housing program to, among other things, help reduce mortgage payments and interest rates. The U.S. Treasury has stated that the Financial Stability Plan will require high levels of transparency and accountability standards and dividend, acquisition and executive compensation restrictions for financial institutions that receive government assistance going forward.

In the first and second quarters of 2009, the U.S. Treasury, in conjunction with the FDIC and the Federal Reserve, announced details regarding the PPIP. The PPIP has two separate parts to address the problem of legacy assets real estate loans held directly on the books of banks (legacy loans) and securities backed by loan portfolios (legacy securities). Under the Legacy Loans Program portion of the PPIP, the U.S. Treasury will invest alongside private investors in individual investment funds referred to as Public-Private Investment Funds, which will purchase eligible asset pools from depository institutions and the FDIC on a discrete basis. The FDIC will provide a guarantee for the debt financing issued by the Public-Private Investment Funds to fund the asset purchases. The FDIC has stated that it plans to test the funding mechanism contemplated by the Legacy Loan Program during the summer of 2009, but an official commencement date for the program has not been announced. Under the Legacy Securities Program, the U.S. Treasury will co-invest with, and provide leverage to pre- approved asset managers to support the market for certain legacy securities. Legacy securities eligible for the program include commercial mortgage backed and residential mortgage backed securities originated prior to 2009 with a rating of AAA at the time of origination. In July 2009, the U.S. Treasury selected nine firms to participate as fund managers in the initial round of the Legacy Securities Program and announced that it will invest up to $30 billion in the debt and equity of the corresponding Public-Private Investment Funds.

We applied in October 2008 to participate in the TARP Capital Purchase Program, and in May 2009 we received preliminary approval from the U.S. Treasury to participate in the Program. However, on June 1, 2009. the Company announced that it would not participate in the Capital Purchase Program.

In the second half of 2009, we participated in TALF as an eligible borrower. As of June 30, 2009, we had $1,250 million of securities purchased under TALF that are reflected within Other trading account assets and received secured financing from the Federal Reserve of $1,167 million related to the purchase of these securities that is reflected within long-term debt. We also continue to evaluate participation in other government sponsored programs for which we may be eligible.

The U.S. federal government has taken or is considering taking other actions to address the financial crisis, including mortgage and credit card program modification proposals that could further impact our business and investments, particularly our mortgage and consumer debt related investments, which are significant. We cannot predict with any certainty whether these actions will be effective or the effect they may have on the financial markets or on our business, results of operations, cash flows and financial condition.

On June 17, 2009, the Obama Administration announced proposals to reform the national regulation of various financial institutions. Depending on the manner of adoption of these or other proposals, we could become subject to increased federal regulation, either as a bank holding company or a Tier 1 financial holding company . Such regulation could involve higher capital requirements, limits on business activities, limits on leverage and other regulatory supervision, including by the Board of Governors of the Federal Reserve System. We cannot predict the form in which such proposals will be adopted (if at all) or their applicability to or effect on our business, financial condition or results of operations.

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

Even under relatively more favorable market conditions (such as those prevailing before the second half of 2007), our insurance 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 products depends in part on the value of the separate accounts supporting these products, which fluctuate substantially depending on the foregoing conditions.

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

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

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

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

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

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

We have significant investment and derivative portfolios, including but not limited to corporate and asset-backed securities, equities and commercial real estate. Economic conditions as well as adverse capital market conditions, including but not limited to a lack of buyers in the marketplace, volatility, credit spread changes, benchmark interest rate changes, and declines in value of underlying collateral will impact the credit quality, liquidity and value of our investments and derivatives, potentially resulting in higher capital charges and unrealized or realized losses, the latter especially if we were to

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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. As such, 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.

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.

As described above, the period since the second half of 2007 has been characterized by extreme adverse market and economic conditions. The foregoing risks are even more pronounced in these unprecedented market and economic conditions.

Interest rate fluctuations could adversely affect our businesses and profitability.

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

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

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

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

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

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

Changes in interest rates could increase our costs of financing.

Our mitigation efforts with respect to interest rate risk are primarily focused on maintaining an investment portfolio with diversified maturities that has a weighted average duration that is

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

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

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

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

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

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

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

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

Goodwill represents the excess of the amounts we paid to acquire subsidiaries and other businesses over the fair value of their net assets at the date of acquisition. Goodwill is assessed annually for potential impairment, or more frequently if conditions warrant, by comparing the carrying value (equity attributed to a business to support its risk) of a business to its estimated fair value at that date. In the fourth quarter of 2008, the significant equity, real estate and other market declines resulted in declines in the fair value, or increases in the level of equity required to support, certain of our businesses. As a result, in the fourth quarter of 2008 we recognized an impairment of goodwill of $337 million of which $97 million related to our Individual Annuities business, $123 million related to our International Investments business, and $117 million related to our Real Estate and Relocation business, which amounts reflected the entire balance of goodwill associated with these businesses. As of June 30, 2009, we had a goodwill balance of $706 million, including $444 million related to our Retirement business and $241 million related to our Asset Management business. 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 additional goodwill impairments, resulting in a charge to income.

In the fourth quarter of 2008, declines in financial markets impacted the fair value of certain equity method investments, particularly in our International Investments business, which resulted in a charge to income for an impairment of these investments of $316 million. Further declines in the fair value of these investments, which have a remaining carrying value of approximately $300 million as of June 30, 2009, may require that we review the remaining carrying value of these investments for potential impairment, and such review could result in additional impairments and charges to income.

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

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, such as the unprecedented market conditions since the second half of 2007, it may be difficult to value certain of our securities, such as sub-prime mortgage backed securities, if

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

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

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

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

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

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

In late September and early October, 2008, A.M. Best Company, Inc., Fitch Ratings Ltd., Moody s Investors Service, and Standard & Poor s, respectively, each revised its outlook for the U.S. life insurance sector to negative from stable, citing, among other things, the significant deterioration and volatility in the credit and equity markets, economic and political uncertainty, and the expected impact of realized and unrealized investment losses on life insurers capital levels and profitability. For a description of the Company s claims-

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paying and credit ratings and the significant changes to those ratings and rating outlooks in 2009, see Management s Discussion and Analysis of Financial Condition and Results of Operations Ratings.

Both Prudential Financial s and Prudential Funding s commercial paper programs were granted approval to participate in the Federal Reserve s Commercial Paper Funding Facility, or CPFF, during the fourth quarter of 2008. Commercial paper issuers must maintain ratings of at least A-1/P-1/F1 by two rating agencies in order to be eligible for CPFF. On February 19, 2009, Prudential Financial s commercial paper rating was downgraded by Fitch from F1 to F2 and, consequently, as of that date, Prudential Financial was no longer eligible to issue commercial paper under the CPFF. As of the date of this filing, Prudential Funding s commercial paper is rated A-1+/P-1/F1; however, as noted above, on March 18, 2009, Moody s placed Prudential Funding s commercial paper rating on review for possible downgrade and the Fitch rating has a negative outlook. If Prudential Funding fails to maintain the required A-1/P-1/F1 ratings by at least two rating agencies, its program would no longer be eligible for CPFF, and we would lose our access to CPFF completely.

Prudential Insurance has been a member of the Federal Home Loan Bank of New York, or FHLBNY, since June 2008. Membership allows Prudential Insurance to participate in FHLBNY s product line of financial services, including collateralized advances, collateralized funding agreements and general asset/liability management that can be used for liquidity management and as an alternative source of funding. Under FHLBNY guidelines, if Prudential Insurance s claims-paying ratings decline below certain levels, and the FHLBNY does not receive written assurances from the New Jersey Department of Banking and Insurance regarding Prudential Insurance s solvency, new borrowings from the FHLBNY would be limited to a term of 90 days or less. Although Prudential Insurance s ratings are currently at or above the required minimum levels, there can be no assurance that the ratings will remain at these levels in the future.

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

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

A downgrade in the credit or financial strength ratings of Prudential Financial or its rated subsidiaries could result in additional collateral requirements or other required payments under certain agreements, including derivative agreements, which are eligible to be satisfied in cash or by posting securities held by the subsidiaries subject to the agreements. A ratings downgrade of three ratings levels from the ratings levels at June 30, 2009 would result in estimated collateral posting requirements or payments under such agreements of approximately $200 million. In addition, a ratings downgrade by A.M. Best to A- for our domestic life insurance companies would require Prudential Insurance to post a letter of credit in the amount of approximately $1.4 billion, based on the level of statutory reserves related to an acquired business, that we estimate would result in annual cash outflows of approximately $70 million, or collateral posting in the form of cash or securities to be held in a trust.

In addition, agreements in connection with capital management activities for our universal life insurance products would require us to post cash collateral based on tests that consider the level of 10-year credit default swap spreads on Prudential Financial s senior debt. As of June 30, 2009, when estimates of Prudential Financial s 10-year credit default swap spreads were approximately 490 basis points, we had posted $53 million of collateral under this agreement.

The NAIC has adopted a Model Regulation entitled Valuation of Life Insurance Policies, commonly known as Regulation XXX, and a supporting Guideline entitled The Application of the Valuation of Life Insurance Policies, commonly known as Guideline AXXX. The Regulation and supporting Guideline require

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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. However, we may not be able to implement actions to mitigate the impact of Regulation XXX or Guideline AXXX on our term or universal life insurance products, thereby potentially resulting in an adverse impact on returns on capital associated with these products, and possibly requiring us to reduce our sales of these products or implement measures that may be disruptive to our business. As we continue to underwrite term and universal life business, we expect to have borrowing needs in 2009 to finance statutory reserves required under Regulation XXX and Guideline AXXX. Several strategies are currently under review to reduce the strain of increased AXXX and XXX statutory reserves associated with our term and universal life products. The activities we may undertake to mitigate or address these needs include obtaining letters of credit, entering into reinsurance transactions or executing other capital market strategies; however, our ability to successfully execute these strategies may depend on market conditions. Further, we have $300 million currently available under our XXX notes facility. Absent any successful mitigation efforts and assuming full usage of the XXX notes facility, we currently believe that our financing need for 2009 could be up to $200 million for XXX and AXXX combined, but this amount may fluctuate due to changes in market conditions or product sales. If we are unsuccessful in satisfying or mitigating this strain as a result of market conditions or otherwise, this financing need could have an adverse effect on our overall liquidity and capital and could require us to increase prices and/or reduce our sales of term or universal life products.

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

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

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

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

Amounts that we expect to collect under current and future contracts, including proceeds we expect to realize from the intended put of our Wachovia Securities joint venture interests to Wells Fargo, are subject to counterparty risk. Wells Fargo has notified us that it intends to pay an unspecified portion of such proceeds in

Wells Fargo common stock. The Company will bear the risk of changes in the market value of the portion of such proceeds received in Wells Fargo common stock. The ability of the Company to hedge such market risk may be limited and our ability to dispose of such stock will be subject to securities law and other restrictions.

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

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

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

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

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

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

For example, the Economic Growth and Tax Relief Reconciliation Act of 2001 and the Jobs and Growth Tax Relief Reconciliation Act of 2003 generally provided for lower income tax, capital gains and dividend tax rates that had the effect of reducing the benefits of tax deferral on the build-up of value of annuities and life insurance products. Continuation of these reduced rates, which are due to sunset in 2011, may hinder our sales and result in the increased surrender of insurance and annuity 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 could result in higher corporate taxes. If such legislation is adopted our consolidated net income could decline.

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

On May 11, 2009, the Obama Administration released the General Explanations of the Administration s Revenue Proposals. Although the Administration has not released proposed statutory language, the General Explanations of the Administration s Revenue Proposals includes proposals which if enacted, would affect the taxation of life insurance companies and certain life insurance products. In particular, the proposals would affect the treatment of corporate owned life insurance policies, or COLIs, by limiting the availability of certain interest deductions for companies that purchase those policies. The proposals would also change the method used to determine the amount of dividend income received by a life insurance company on assets held in separate accounts used to support products, including variable life insurance and variable annuity contracts, that is eligible for the DRD. If proposals of this type were enacted, the Company s sale of COLI, variable annuities, and variable life products could be adversely affected and the Company s actual tax expense could increase, reducing earnings.

The General Explanation of the Administration s 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 deductions for expenses that are 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 certain deductions for ordinary and necessary business expenses that are allocable to foreign source income until that related 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, reducing earnings.

The products we sell have different tax characteristics, in some cases generating tax deductions. The level of profitability of certain of our products are significantly dependent on these characteristics and our ability to

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continue to generate taxable income, which are taken into consideration when pricing products and are a component of our capital management strategies. Accordingly, a change in tax law, our ability to generate taxable income, or other factors impacting the availability 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 business.

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

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

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

Our international businesses are subject to the tax laws and regulations of the countries in which they are organized and in which they operate. Foreign governments from time to time consider legislation that could increase the amount of taxes that we pay or impact the sales of our products. For example, during 2007, Mexico enacted an alternative flat tax that became effective in 2008. In March 2007, the Japanese National Tax Authority, or NTA, indicated that it would change the tax treatment of certain term life products sold to corporations, which resulted in a significant decrease in the sale of Increasing Term Life insurance to corporations in Japan. On December 26, 2007, the NTA confirmed in an official announcement its intention to revise the corporate tax deductibility of insurance premiums paid with respect to certain Increasing Term insurance products. The NTA then released a revised tax circular that reduced, but did not eliminate, the corporate tax deductibility of insurance premiums paid with respect to Increasing Term insurance products sold after February 28, 2008.

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.

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

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investments held in our Japanese subsidiaries could result, in the event of a material adverse event, such as a significant cataclysmic mortality event, coupled with a dramatic strengthening in the yen, in additional liquidity or capital needs for our International Insurance operations.

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

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

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

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 Contingent Liabilities and Litigation and Regulatory Matters in the Notes to Unaudited Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. Congress from time to time considers pension reform legislation that could decrease the attractiveness of certain of our retirement products and services to retirement plan sponsors and administrators, or have an unfavorable effect on our ability to earn revenues from these products and services. In this regard, the Pension Protection Act of 2006 (PPA) makes significant changes in employer pension funding obligations associated with defined benefit pension plans which are likely to increase sponsors costs of maintaining these plans. These changes could hinder our sales of defined benefit pension products and services and cause sponsors to discontinue existing plans for which we provide asset management, administrative, or other services, but could increase the attractiveness of certain group annuity products we offer in connection with terminating pension plans. Certain tax-favored savings initiatives that have been proposed could hinder sales and persistency of our products and services that support employment based retirement plans.

Insurance regulators, as well as industry participants, have also begun to consider potentially significant changes in the way in which statutory reserves and statutory capital are determined, particularly for products with embedded options and guarantees. New regulatory capital requirements have already gone into effect for variable annuity products and new reserving requirements for these products are scheduled to be implemented as of the end of 2009. The timing of, and extent of, such changes to the statutory reporting framework are uncertain; however, the result could be increases to statutory reserves and capital, and an adverse effect on our products, sales and operating costs. Moreover, insurance regulators recently deferred mandatory adoption of changes to the statutory accounting rules for loan-backed and structured securities. Further changes to these rules by insurance regulators, or the timing of the Company s application of these rules, are possible, given the deferral and other uncertainty around the resolution of these accounting rules.

In view of recent events involving certain financial institutions, it is likely that the U.S. federal government will heighten its oversight of companies in the financial services industry such as us, including broad regulations intended to address systemic risks to the financial system. The Obama Administration has proposed the creation

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of an Office of National Insurance within the U.S. Treasury. In recently circulated draft legislation, the Administration has proposed that the role of the Office of National Insurance would be, among other things, to monitor the insurance industry, designate insurers or their affiliates as entities subject to regulation as Tier 1 financial holding companies , as discussed above, gather information, develop expertise, negotiate international agreements, and coordinate policy in the insurance sector. We cannot predict whether this or other proposals will be adopted, or what impact, if any, such proposals or, if enacted, such laws, could have on our business, financial condition or results of operations. Significant regulatory changes are under consideration in other jurisdictions as well, as they consider their responses to current financial industry issues.

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 in our Annual Report on Form 10-K for the year ended December 31, 2008 for further discussion of the impact of regulations on our businesses.

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

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

Material pending litigation and regulatory matters affecting us, and certain risks to our businesses presented by such matters, are discussed under Contingent Liabilities and Litigation and Regulatory Matters in the Notes to Unaudited Consolidated Financial Statements included in this Quarterly Report on Form 10-Q. 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.

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

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

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

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

A terrorist attack affecting financial institutions in the United States or elsewhere could negatively impact the financial services industry in general and our business operations, investment portfolio and profitability in particular. As previously reported, in August 2004, the U.S. Department of Homeland

Security identified our Newark, New Jersey facilities, along with those of several other financial institutions in New York and Washington, D.C., as possible targets of a terrorist attack.

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

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

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

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

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

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

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

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

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

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

Prudential Financial is the holding company for all our operations, and dividends, returns of capital and interest income from its subsidiaries are the principal source of funds available to Prudential Financial to pay shareholder dividends, to make share repurchases and to meet its other obligations. These sources of funds may be complemented by Prudential Financial s access, if available, to the financial markets and bank facilities. As described under Business Regulation in our Annual Report on Form 10-K for the year ended December 31, 2008 and in Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources, in this Quarterly Report on Form 10-Q 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 constrains their payment of dividends. For example, we anticipate that, unless market conditions improve, the dividend capacity of Prudential Insurance will be substantially constrained in 2009 by the capital requirements of our financial strength ratings targets. 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 also affect our ability to pay shareholder dividends and to engage in share repurchases. Our practice is to declare and pay dividends annually and the decision whether to declare any Common Stock dividend with respect to 2009 will be made in the fourth quarter of 2009. We announced on October 9, 2008, that, in light of recent market volatility and extraordinary events and developments affecting financial markets generally, we were suspending purchases of Common Stock under our 2008 share repurchase program, effective October 10, 2008. We do not anticipate reinstituting a share repurchase program in 2009.

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.

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These regulatory and other restrictions may delay a potential merger or sale of Prudential Financial, even if the Board of Directors decides that it is in the best interests of shareholders to merge or be sold.

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

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

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

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

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

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

We cannot pay cash dividends on our Common Stock for any period if we choose not to pay dividends on the Class B Stock in an aggregate amount at least equal to the lesser of the CB Distributable Cash Flow or the Target Dividend Amount on the Class B Stock for that period. See Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities Convertibility in our 2008 Annual Report on Form 10-K 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.

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Explanation of Responses:

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 in our 2008 Annual Report on Form 10-K. Holders of Class B Stock may at their discretion, beginning in 2016, and at any time in the event of specified regulatory events, convert their shares of Class B Stock into shares of Common Stock with an aggregate average market value equal to 100% of the then appraised Fair Market Value of the Class B Stock. Any exchange or conversion could occur at a time when either or both of the Common Stock and Class B Stock may be considered overvalued or undervalued. Accordingly, any such exchange or conversion may be disadvantageous to holders of Common Stock.

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

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

(c) The following table provides information about purchases by the Company during the quarter ended June 30, 2009, of its Common Stock.

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Program	Approximate Dollar Value of Shares that May Yet be Purchased under the Program
April 1, 2009 through April 30, 2009	251	$ 25.69		
May 1, 2009 through May 31, 2009	4,926	$ 35.23		
June 1, 2009 through June 30, 2009	587	$ 37.01		
Total	5,764	$ 35.00		$

(1) Includes 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 4. ***Submission of Matters to a Vote of Security Holders***

At the Prudential Financial Annual Meeting of Shareholders on May 12, 2009, the following voting occurred:

The shareholders elected fourteen directors to serve a one-year term until the 2010 Annual Meeting of Shareholders or in each case until their successors are elected and qualified. The voting results were as follows:

Name of Director	For	Against	Abstain
Thomas J. Baltimore, Jr.	238,489,664	4,985,545	2,024,449
Frederic K. Becker	237,210,028	6,331,818	1,957,812
Gordon M. Bethune	221,171,671	22,326,545	2,001,442
Gaston Caperton	238,209,699	5,231,442	2,058,517
Gilbert F. Casellas	238,302,022	5,202,718	1,994,918
James G. Cullen	220,907,327	22,618,932	1,973,399
William H. Gray III	233,634,349	9,840,672	2,024,637
Mark B. Grier	238,382,247	5,266,100	1,851,311
Jon F. Hanson	237,162,689	6,320,037	2,016,932
Constance J. Horner	221,135,562	22,400,463	1,963,633
Karl J. Krapek	236,120,996	7,395,663	1,982,999
Christine A. Poon	238,598,766	4,945,992	1,954,900
John R. Strangfeld	236,373,802	7,379,458	1,746,398
James A. Unruh	235,768,981	7,871,254	1,859,423

The shareholders ratified the appointment of PricewaterhouseCoopers LLP as the Company s independent registered public accounting firm (independent auditors) for 2009. The voting results were as follows:

For	Against	Abstain	Broker Non-Votes
242,719,482	1,893,750	886,406	(0)

The shareholders approved a shareholder proposal recommending a shareholder advisory vote on executive compensation. The voting results were as follows:

For	Against	Abstain	Broker Non-Votes
129,806,310	84,723,976	2,333,498	28,635,874

This matter is under consideration by the Board of Directors.

The shareholders rejected a shareholder proposal recommending separating the offices of Chairman and Chief Executive Officer. The voting results were as follows:

For	Against	Abstain	Broker

			Non-Votes
53,861,600	160,067,525	2,934,659	28,635,874

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Item 6. ***Exhibits***

12.1 Statement of Ratio of Earnings to Fixed Charges.

31.1 Section 302 Certification of the Chief Executive Officer.

31.2 Section 302 Certification of the Chief Financial Officer.

32.1 Section 906 Certification of the Chief Executive Officer.

32.2 Section 906 Certification of the Chief Financial Officer.

101.INS XBRL Instance Document.

101.SCH XBRL Taxonomy Extension Schema Document.

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document.

101.LAB XBRL Taxonomy Extension Label Linkbase Document.

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document.

101.DEF XBRL Taxonomy Extension Definition Linkbase Document.

In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to the Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be part of any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

Prudential Financial, Inc. will furnish upon request a copy of any exhibit listed above upon the payment of a reasonable fee covering the expense of furnishing the copy. Requests should be directed to:

Shareholder Services

Prudential Financial, Inc.

751 Broad Street, 6th Floor

Newark, NJ 07102

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Explanation of Responses:

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PRUDENTIAL FINANCIAL, INC.

By: /s/ RICHARD J. CARBONE
Richard J. Carbone

Executive Vice President and Chief Financial Officer

(Authorized signatory and principal financial officer)

Date: August 7, 2009

Exhibit Index

Exhibit Number and Description

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