PRUDENTIAL FINANCIAL INC
Form 10-Q/A
November 07, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

AMENDMENT NO. 1

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

For the quarterly period ended September 30, 2008

OR

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

For the Transition Period from to

Commission File Number 001-16707

Prudential Financial, Inc.

(Exact Name of Registrant as Specified in its Charter)

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

751 Broad Street

Newark, New Jersey 07102

(973) 802-6000

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

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

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

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

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

As of September 30, 2008, 422 million shares of the registrant s Common Stock (par value $0.01) were outstanding. In addition, 2 million shares of the registrant s Class B Stock, for which there is no established public trading market, were outstanding.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A is being filed for the purpose of amending Item 2 of Part I of the Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 of Prudential Financial, Inc. to reflect corrections in certain data relating to (a) the weighted average estimated subordination percentages of commercial mortgage-backed securities attributable to the Financial Services Businesses and the Closed Block Business included within Realized Investment Gains and Losses and General Account Investments General Account Investments Fixed Maturity Securities Commercial Mortgage-Backed Securities, (b) the amortized cost and gross unrealized losses greater than 20% by timeframe for fixed maturity securities attributable to the Financial Services Businesses included within Realized Investment Gains and Losses and General Account Investments General Account Investments Fixed Maturity Securities Unrealized Losses from Fixed Maturity Securities and (c) the cost and gross unrealized losses greater than 20% by timeframe for equity securities attributable to the Financial Services Businesses included within Realized Investment Gains and Losses and General Account Investments General Account Investments Equity Securities Unrealized Losses from Equity Securities. All other Items of the original filing on Form 10-Q made on October 30, 2008 are unaffected and such Items have not been included in this Amendment. Information in this Form 10-Q/A is generally stated as of September 30, 2008 and does not reflect any subsequent information or events.

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Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) addresses the consolidated financial condition of Prudential Financial as of September 30, 2008, compared with December 31, 2007, and its consolidated results of operations for the three and nine months ended September 30, 2008 and 2007. You should read the following analysis of our consolidated financial condition and results of operations in conjunction with the MD&A and the audited Consolidated Financial Statements for the year ended December 31, 2007 included in the Company s Current Report on Form 8-K dated May 16, 2008, as well as the Risk Factors section, the statements under Forward-Looking Statements and the Unaudited Interim Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

Overview

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

Financial Services Businesses

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

We attribute financing costs to each segment based on the amount of financing used by each segment, excluding financing costs associated with corporate debt. The net investment income of each segment includes earnings on the amount of equity that management believes is necessary to support the risks of that segment.

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

Closed Block Business

In connection with the demutualization, we ceased offering domestic participating products. The liabilities for our traditional domestic in force participating products were segregated, together with assets, in a regulatory mechanism referred to as the Closed Block. The Closed Block is designed generally to provide for the reasonable expectations for future policy dividends after demutualization of holders of participating individual life insurance policies and annuities included in the Closed Block by allocating assets that will be used exclusively for payment of benefits, including policyholder dividends, expenses and taxes with respect to these products. See Note 4 to the Unaudited Interim Consolidated Financial Statements for more information on the Closed Block. At the time of demutualization, we determined the amount of Closed Block assets so that the Closed Block assets initially had a lower book value than the Closed Block liabilities. We expect that the Closed Block assets will generate sufficient cash flow, together with anticipated revenues from the Closed Block policies, over the life of the Closed Block to fund payments of all expenses, taxes, and policyholder benefits to be paid to, and the reasonable dividend expectations of, holders of the Closed Block policies. We also segregated for accounting purposes the assets that we need to hold outside the Closed Block to meet capital requirements related to the Closed Block policies. No policies sold after demutualization will be added to the Closed Block, and its in force business is expected to ultimately decline as we pay policyholder benefits in full. We also expect the proportion of our business represented by the Closed Block to decline as we grow other businesses.

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

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

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

Executive Summary

Prudential Financial, one of the largest financial services companies in the U.S., offers individual and institutional clients a wide array of financial products and services, including life insurance, annuities, mutual funds, pension and retirement-related services and administration, investment management, real estate brokerage and relocation services, and, through a joint venture, retail securities brokerage services. We offer these products and services through one of the largest distribution networks in the financial services industry.

The stress experienced by global financial markets that began in the second half of 2007 continued and substantially increased during the third quarter of 2008. The volatility and disruption in the global financial markets have reached unprecedented levels. The impact of these events and other items, include the following:

- For the three months ended September 30, 2008, our Financial Services Businesses had a net loss of $108 million and the Closed Block Business had a net loss of $58 million, as unfavorable financial market conditions had a substantial negative effect on reported results of our domestic businesses and market values in our investment portfolio.

- In light of recent market volatility and extraordinary events and developments affecting financial markets generally, including market conditions for issuance of certain capital instruments such as hybrid securities, we suspended all purchases of our Common Stock under our existing share repurchase program effective October 10, 2008.

Net unrealized gains (losses) on general account fixed maturity investments of the Financial Services Businesses were an unrealized loss of $3.522 billion as of September 30, 2008, compared to an unrealized gain of $1.332 billion as of December 31, 2007. Gross unrealized gains declined from $3.302

billion as of December 31, 2007 to $2.328 billion as of September 30, 2008 and gross unrealized losses increased from $1.970 billion to $5.850 billion for the same periods. The increase in gross unrealized losses was primarily due to credit spread increases in the credit markets and liquidity concerns. Net unrealized gains (losses) on general account fixed maturity investments of the Closed Block Business were an unrealized loss of $2.585 billion as of September 30, 2008, compared to an unrealized gain of $682 million as of December 31, 2007.

As discussed within Liquidity and Capital Resources, as of September 30, 2008, we had significant cash, cash equivalents and short-term investments on our balance sheet, including $3.8 billion at Prudential Financial, the parent holding company; however, 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.

As discussed within Liquidity and Capital Resources, as of September 30, 2008, we estimate that the total adjusted operating capital of our domestic life insurance subsidiaries met the Risk Based Capital levels required to meet their ratings objectives. However, subsequent to September 30, 2008 market conditions have negatively impacted the level of capital in our domestic life insurance subsidiaries and absent a recovery in markets we will need to take capital management actions to maintain capital consistent with these ratings objectives, which may include redeployment of financial resources from internal sources or, if markets continue to decline, require external sources of capital. Certain of these capital management activities may require regulatory approval.

During the quarter ended September 30, 2008, we continued to have positive net flows in our domestic annuity, retirement and asset management businesses, as well as sales growth in our Individual Life, Group Insurance and International Insurance segments.

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

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Shown below are the contributions of each segment and Corporate and Other operations to our adjusted operating income for the three and nine months ended September 30, 2008 and 2007 and a reconciliation of adjusted operating income of our segments and Corporate and Other operations to income from continuing operations before income taxes and equity in earnings of operating joint ventures.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Adjusted operating income before income taxes for segments of the Financial Services Businesses:				
Individual Life	$ 238	$ 251	$ 437	$ 493
Individual Annuities	(307)	205	(38)	551
Group Insurance	101	100	271	220
Asset Management	(8)	161	301	503
Financial Advisory	(217)	85	(150)	254
Retirement	133	65	398	351
International Insurance	460	423	1,326	1,245
International Investments	37	114	89	219
Corporate and Other	(21)	(12)	(61)	(11)
Reconciling Items:				
Realized investment gains (losses), net, and related adjustments	(564)	(178)	(1,756)	10
Charges related to realized investment gains (losses), net	17	(2)	45	(15)
Investment gains (losses) on trading account assets supporting insurance liabilities, net	(534)	36	(919)	10
Change in experience-rated contractholder liabilities due to asset value changes	388	(6)	682	4
Divested businesses	(3)	(27)	(128)	19
Equity in earnings of operating joint ventures	208	(103)	108	(323)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	(72)	1,112	605	3,530
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Closed Block Business	(113)	8	(101)	160
Consolidated income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (185)	$ 1,120	$ 504	$ 3,690

Results for the three and nine months ended September 30, 2008 presented above reflect the following:

Individual Life segment results for the third quarter of 2008 and the first nine months of 2008 declined from the same periods in the prior year primarily due to a net increase in amortization of deferred policy acquisition costs, net of related amortization of unearned revenue reserves, due to unfavorable equity market performance, partially offset by improved mortality experience, net of reinsurance. Adjusted operating income in both the current year and prior year periods benefited from the annual reviews of the estimate of total gross profits used as a basis for amortizing deferred policy acquisition costs and unearned revenue reserves, which benefited the current year period $79 million and the prior year period $78 million.

Individual Annuities segment results for the third quarter and first nine months of 2008 declined in comparison to the corresponding prior year periods, reflecting the impact of our annual reviews of the reserve for the guaranteed minimum death and income benefit features of our variable annuity products and the estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs. Results for the third quarter and first nine months of 2008 included $380 million of charges

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from the annual reviews, largely reflecting the impact of current market conditions, compared to $30 million of benefits in the third quarter and first nine months of 2007. Also contributing to the decline was an unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features.

Group Insurance segment results were relatively unchanged in the third quarter of 2008 as the benefit of growth and more favorable claims experience in our group disability business was mostly offset by lower investment yields. Group Insurance segment results for the first nine months of 2008 improved reflecting growth in our group disability business, as well as higher earnings in our group life business from more favorable claims experience and the benefit from a premium adjustment for updated data on a large case.

Asset Management segment results declined in both the third quarter and first nine months of 2008 largely attributable to unfavorable results from the segment s proprietary investing business primarily related to investment results in fixed income and equity investments, as well as a decrease in performance based incentive fees, primarily related to institutional real estate funds. These items were partially offset by higher asset management fees.

Financial Advisory segment results for the third quarter of 2008 and the first nine months of 2008 decreased in comparison to the corresponding prior year periods, as the current year periods include losses from our share of the retail brokerage joint venture with Wachovia. These results include a charge of $235 million related to our share of Wachovia s global settlement concerning the underwriting, sale and subsequent auction of certain auction rate securities. In addition, results in the third quarter and first nine months of 2008 include transition costs of $37 million and $130 million, respectively, associated with the January 1, 2008 combination of the A.G. Edwards business with Wachovia Securities. Our reported share of earnings and transition costs for the first nine months of 2008 are based on our estimate of our diluted ownership percentage subsequent to this combination.

Retirement segment results for the third quarter and first nine months of 2008 increased in comparison to the corresponding prior year periods. The third quarter and first nine months of 2007 include an $81 million charge for payments made to plan clients related to a legal action filed against an unaffiliated asset manager. Results for both periods include the impact of our annual reviews and other cumulative adjustments relating to the amortization of deferred policy acquisition costs and valuation of business acquired. Absent the impact of these items, results for the third quarter and first nine months of 2008 decreased in comparison to the corresponding prior year periods, primarily reflecting higher general and administrative expenses, driven by expenses incurred to expand our full service product and service capabilities, and a decrease in asset management fees, driven by a decrease in average full service fee-based retirement account values, primarily resulting from equity market depreciation.

The International Insurance segment is comprised of its Life Planner and Gibraltar Life operations. Results from the segment s Life Planner operations improved for both the third quarter and first nine months of 2008 primarily reflecting continued growth of our Japanese Life Planner operations and, to a lesser extent, improved investment income margins. Results from the segment s Gibraltar Life operation benefited in both the third quarter and first nine months of 2008 from improved investment income margins which benefited from various investment portfolio strategies, and the continued growth of our U.S. dollar denominated annuity product.

International Investments segment results declined in both the third quarter and first nine months of 2008 due to the benefit of certain one-time items recognized in the prior year, as well as lower earnings in the current year in the segment s Korean asset management operation.

Corporate and Other results for the third quarter of 2008 and the first nine months of 2008 declined from the same periods in the prior year primarily due to losses in our real estate and relocation services business.

Realized investment gains (losses), net, and related adjustments for the Financial Services Businesses in the third quarter and first nine months of 2008 amounted to $(564) million and $(1,756) million,

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respectively. Results for the third quarter and first nine months of 2008 relate primarily to other-than-temporary impairments of fixed maturity and equity securities of $(404) million and $(1,387) million, respectively.

Income (loss) from continuing operations before income taxes in the Closed Block Business decreased $121 million in the third quarter of 2008 compared to the third quarter of 2007, primarily reflecting a decrease in net investment income and an increase in dividends paid and accrued to policyholders, which was partially offset by the resulting decrease in the cumulative earnings policyholder dividend obligation expense. Income (loss) from continuing operations before income taxes in the Closed Block Business decreased $261 million for the first nine months of 2008 compared to the first nine months of 2007, reflecting a decrease in net realized investment gains and net investment income, partially offset by the resulting decrease in the cumulative earnings policyholder dividend obligation expense.

Accounting Policies & Pronouncements

Application of Critical Accounting Estimates

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

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

- Valuation of investments, including the recognition of other-than-temporary impairments;
- Policyholder liabilities;
- Deferred policy acquisition costs;
- Goodwill;
- Pension and other postretirement benefits;
- Taxes on income; and
- Reserves for contingencies, including reserves for losses in connection with unresolved legal matters.

For an updated discussion of the application of estimates and assumptions around the valuation of investments, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities. For an updated discussion of the application of estimates and assumptions around the recognition of 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 and Realized Investment Gains and Losses and General Account Investments General Account Investments Equity Securities Other-than-Temporary Impairments of Equity Securities.

A discussion of each of the remaining critical accounting estimates may be found in our Current Report on Form 8-K dated May 16, 2008, under Management s Discussion and Analysis of Financial Condition and Results of Operations Accounting Policies and Pronouncements Application of Critical Accounting Estimates.

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Accounting Pronouncements Adopted

See Note 2 to the Unaudited Interim Consolidated Financial Statements for a discussion of recently adopted accounting pronouncements, including the adoption of SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities and SFAS No. 157, Fair Value Measurements.

Recent Accounting Pronouncements

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

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Consolidated Results of Operations

The following table summarizes income from continuing operations for the Financial Services Businesses and the Closed Block Business as well as other components comprising net income.

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(in millions)			
Financial Services Businesses by segment:				
Individual Life	$ 80	$ 217	$ 209	$ 451
Individual Annuities	(363)	179	(167)	517
Group Insurance	55	67	22	199
Total Insurance Division	(228)	463	64	1,167
Asset Management	(4)	170	307	510
Financial Advisory	(2)	(12)	(21)	(47)
Retirement	(249)	18	(514)	224
Total Investment Division	(255)	176	(228)	687
International Insurance	386	569	878	1,546
International Investments	29	106	69	193
Total International Insurance and Investments Division	415	675	947	1,739
Corporate and Other	(4)	(202)	(178)	(63)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures for Financial Services Businesses	(72)	1,112	605	3,530
Income tax expense (benefit)	(88)	315	2	1,014
Income from continuing operations before equity in earnings of operating joint ventures for Financial Services Businesses	16	797	603	2,516
Equity in earnings of operating joint ventures, net of taxes	(129)	67	(62)	200
Income (loss) from continuing operations for Financial Services Businesses	(113)	864	541	2,716
Income (loss) from discontinued operations, net of taxes	5	(4)	3	4
Net income (loss) Financial Services Businesses	$ (108)	$ 860	$ 544	$ 2,720
Basic income (loss) from continuing operations per share Common Stock	$ (0.24)	$ 1.92	$ 1.33	$ 5.96
Diluted income (loss) from continuing operations per share Common Stock	$ (0.24)	$ 1.89	$ 1.32	$ 5.85
Basic net income (loss) per share Common Stock	$ (0.23)	$ 1.91	$ 1.32	$ 5.97
Diluted net income (loss) per share Common Stock	$ (0.23)	$ 1.88	$ 1.32	$ 5.86
Closed Block Business:				
Income (loss) from continuing operations before income taxes for Closed Block Business	$ (113)	$ 8	$ (101)	$ 160
Income tax expense (benefit)	(55)	1	(50)	49
Income (loss) from continuing operations for Closed Block Business	(58)	7	(51)	111

Income from discontinued operations, net of taxes				2
Net income (loss) Closed Block Business	$ (58)	$ 7	$ (51)	$ 113
Basic and diluted income (loss) from continuing operations per share Class B Stock	$ (34.00)	$ (3.00)	$ (43.50)	$ 34.50
Basic and diluted net income (loss) per share Class B Stock	$ (34.00)	$ (3.00)	$ (43.50)	$ 35.50
Consolidated:				
Net income (loss)	$ (166)	$ 867	$ 493	$ 2,833

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Results of Operations Financial Services Businesses

2008 to 2007 Three Month Comparison. Income (loss) from continuing operations attributable to the Financial Services Businesses decreased $977 million, from income of $864 million in the third quarter of 2007 to a loss of $113 million in the third quarter of 2008. The decrease reflects the impact of unfavorable market conditions on the results of our segments and investment portfolio. Results for the third quarter of 2008 include net investment losses within both our general account and proprietary investments. In addition, results for the third quarter of 2008 include reserve increases for the guaranteed minimum death and income benefit features of our variable annuity products and increased amortization of deferred policy acquisition and other costs reflecting an update of actuarial assumptions based on an annual review, including the impact of markets. Results for the third quarter of 2008 also include the company s share of results of the retail securities brokerage joint venture with Wachovia, including costs associated with a settlement relating to auction rate securities. On a diluted per share basis, income (loss) from continuing operations attributable to the Financial Services Businesses for the three months ended September 30, 2008 of $(0.24) per share of Common Stock decreased from $1.89 per share of Common Stock for the three months ended September 30, 2007. We analyze the operating performance of the segments included in the Financial Services Businesses using adjusted operating income as described in Segment Measures, below. For a discussion of our segment results on this basis see Results of Operations for Financial Services Businesses by Segment, below. In addition, for a discussion of the realized investment gains (losses), net attributable to the Financial Services Businesses, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses, below. For additional information regarding investment income, excluding realized investment gains (losses) see Realized Investment Gains and Losses and General Account Investments General Account Investments, below.

The direct equity adjustment increased income from continuing operations available to holders of the Common Stock for earnings per share purposes by $10 million for the three months ended September 30, 2008, compared to $13 million for the three months ended September 30, 2007. The direct equity adjustment modifies earnings available to holders of the Common Stock and the Class B Stock for earnings per share purposes. The holders of the Common Stock will benefit from the direct equity adjustment as long as reported administrative expenses of the Closed Block Business are less than the cash flows for administrative expenses determined by the policy servicing fee arrangement that is based upon insurance and policies in force and statutory cash premiums. As statutory cash premiums and policies in force in the Closed Block Business decline, we expect the benefit to the Common Stock holders from the direct equity adjustment to decline accordingly. If the reported administrative expenses of the Closed Block Business exceed the cash flows for administrative expenses determined by the policy servicing fee arrangement, the direct equity adjustment will reduce income available to holders of the Common Stock for earnings per share purposes.

2008 to 2007 Nine Month Comparison. Income from continuing operations attributable to the Financial Services Businesses decreased $2.175 billion, from $2.716 billion for the first nine months of 2007 to $541 million for the first nine months of 2008. The decrease reflects the impact of unfavorable market conditions on the results of our segments and investment portfolio. Results for the first nine months of 2008 include net investment losses on our general account investments and lower proprietary investing results. In addition, results for the first nine months of 2008 include reserve increases for the guaranteed minimum death and income benefit features of our variable annuity products and increased amortization of deferred policy acquisition and other costs reflecting an update of actuarial assumptions based on an annual review, including the impact of markets. Results for the first nine months of 2008 also include the company s share of results of the retail securities brokerage joint venture with Wachovia, including costs associated with a settlement relating to auction rate securities. On a diluted per share basis, income from continuing operations attributable to the Financial Services Businesses for the nine months ended September 30, 2008 of $1.32 per share of Common Stock decreased from $5.85 per share of Common Stock for the nine months ended September 30, 2007. This decrease reflects the decline in earnings discussed above, partially offset by the benefit of a lower number of shares of Common Stock outstanding due to share repurchases.

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The direct equity adjustment increased income from continuing operations available to holders of the Common Stock for earnings per share purposes by $36 million for the nine months ended September 30, 2008, compared to $42 million for the nine months ended September 30, 2007.

Results of Operations Closed Block Business

2008 to 2007 Three Month Comparison. Income (loss) from continuing operations attributable to the Closed Block Business for the three months ended September 30, 2008, was a loss of $58 million, or $(34.00) per share of Class B Stock, compared to income of $7 million, or $(3.00) per share of Class B Stock, for the three months ended September 30, 2007. The direct equity adjustment decreased income from continuing operations available to the Class B Stock holders for earnings per share purposes by $10 million for the three months ended September 30, 2008, compared to $13 million for the three months ended September 30, 2007. For a discussion of the results of operations for the Closed Block Business, see Results of Operations of Closed Block Business, below.

2008 to 2007 Nine Month Comparison. Income (loss) from continuing operations attributable to the Closed Block Business for the nine months ended September 30, 2008, was a loss of $51 million, or $(43.50) per share of Class B Stock, compared to income of $111 million, or $34.50 per share of Class B Stock, for the nine months ended September 30, 2007. The direct equity adjustment decreased income from continuing operations available to the Class B Stock holders for earnings per share purposes by $42 million for the nine months ended September 30, 2008, compared to $36 million for the nine months ended September 30, 2007. For a discussion of the results of operations for the Closed Block Business, see Results of Operations of Closed Block Business, below.

Segment Measures

In managing our business, we analyze operating performance separately for our Financial Services Businesses and our Closed Block Business. For the Financial Services Businesses, we analyze our segments operating performance using adjusted operating income. Results of the Closed Block Business for all periods are evaluated and presented only in accordance with U.S. GAAP. Adjusted operating income does not equate to income from continuing operations before income taxes and equity in earnings of operating joint ventures or net income as determined in accordance with U.S. GAAP but is the measure of segment profit or loss we use to evaluate segment performance and allocate resources, and consistent with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, is our measure of segment performance.

Adjusted operating income is calculated for the segments of the Financial Services Businesses by adjusting each segment s income from continuing operations before income taxes and equity in earnings of operating joint ventures for the following items:

- realized investment gains (losses), net, except as indicated below, and related charges and adjustments;
- net investment gains and losses on trading account assets supporting insurance liabilities and changes in experience-rated contractholder liabilities due to asset value changes;
- the contribution to income/loss of divested businesses that have been or will be sold or exited that do not qualify for discontinued operations accounting treatment under U.S. GAAP; and

equity in earnings of operating joint ventures.

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

Effective with the first quarter of 2008, we amended our definition of adjusted operating income as it relates to certain externally managed investments in the European market held within the general account portfolio. These investments are medium term notes that are collateralized by investment portfolios primarily consisting of investment grade European fixed income securities, including corporate bonds and asset-backed securities, and derivatives, as well as varying degrees of leverage. The notes have a stated coupon and provide a return based on the performance of the underlying portfolios and the level of leverage. We invest in these notes to earn a coupon through maturity, consistent with our investment purpose for other debt securities. The notes are accounted for under U.S. GAAP as available for sale fixed maturity securities with bifurcated embedded derivatives (total return swaps). Changes in the value of the fixed maturity securities are reported in Stockholders Equity under the heading Accumulated Other Comprehensive Income and changes in the market value of the embedded total return swaps are included in current period earnings in Realized investment gains (losses), net. Historically, adjusted operating income included cumulative losses and recoveries of such losses on the embedded derivatives in the period they occurred, while cumulative net gains on the embedded derivatives were deferred and amortized into adjusted operating income over the remaining life of the notes.

Adjusted operating income under the amended definition excludes any amounts related to changes in the market value of the embedded derivatives. Adjusted operating income for all periods presented has been revised to conform with the amended definition. We view adjusted operating income under the amended definition as a more meaningful presentation of our results for purposes of analyzing the operating performance of, and allocating resources to, our business segments, as the amended definition presents the results of these investments on a basis generally consistent with similar investments held directly within the general account portfolio. We believe the mark to market losses discussed below, resulting primarily from unprecedented credit spread widening, are not representative of the fundamental value of the underlying investments over the long term. Adjusted operating income continues to include the coupon on these notes, which reflects the market based interest rate and spread of securities comparable to the underlying securities that existed at the time we entered into the investments. The accounting for these investments under U.S. GAAP has not changed.

For the three months ended September 30, 2008 and 2007, we recorded losses of $132 million and $103 million, respectively, and for the nine months ended September 30, 2008 and 2007, recorded losses of $318 million and $92 million, respectively, within Realized investment gains (losses), net related to the change in value on the embedded derivatives associated with these investments, which are excluded from adjusted operating income under the amended definition. Adjusted operating income under the former definition included losses of $72 million and $69 million, respectively, for the three and nine months ended September 30, 2007.

In 2008, we classified our commercial mortgage securitization operations as a divested business, reflecting our decision to exit this business. As a result of this decision, these operations, which involved the origination and purchase of commercial mortgage loans that we in turn would aggregate and sell into commercial mortgage-backed securitization transactions, together with related hedging activities, previously reported within the Asset Management segment, have been classified within divested businesses and are reflected in our Corporate and Other operations. Accordingly, these results are excluded from adjusted operating income, with prior period results being adjusted to reflect such reclassification. These operations had pre-tax losses of $6 million and $129 million for the three and nine months ended September 30, 2008, respectively, and pre-tax losses of $42 million and $10 million for the three and nine months ended September 30, 2007, respectively. We retained and continue the remainder of our commercial mortgage origination, servicing and other commercial mortgage related activities, which remain a part of the Asset Management segment.

Adjusted operating income excludes Realized investment gains (losses), net, except as indicated below, and related charges and adjustments. A significant element of realized investment gains and losses are impairments and credit-related and interest rate-related gains and losses from sales of securities. Impairments and losses from sales of credit-impaired securities, the timing of which depends largely on market credit cycles, can vary considerably across periods. The timing of other sales that would result in gains or losses, such as interest rate-related gains or losses, is largely subject to our discretion and influenced by market opportunities, as well as

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our tax profile. Trends in the underlying profitability of our businesses can be more clearly identified without the fluctuating effects of these transactions. Similarly, adjusted operating income excludes investment gains and losses on trading account assets supporting insurance liabilities and changes in experience-rated contractholder liabilities due to asset value changes, because these recorded changes in asset and liability values will ultimately accrue to the contractholders. Adjusted operating income excludes the results of divested businesses because they are not relevant to understanding our ongoing operating results. The contributions to income/loss of wind-down businesses that we have not divested remain in adjusted operating income. See Note 9 to the Unaudited Interim Consolidated Financial Statements for further information on the presentation of segment results.

As noted above, certain Realized investment gains (losses), net, are included in adjusted operating income. We include in adjusted operating income the portion of our realized investment gains and losses on derivatives that arise from the termination of contracts used to hedge our foreign currency earnings in the same period that the expected earnings emerge. Similarly, we include in adjusted operating income the portion of our realized investment gains and losses on derivatives that represent current period yield adjustments. The realized investment gains or losses from products that are free standing derivatives, or contain embedded derivatives, along with the realized investment gains or losses from associated derivative portfolios that are part of an economic hedging program related to the risk of these products, are included in adjusted operating income. Adjusted operating income also includes those realized investment gains and losses that represent profit or loss of certain of our businesses which primarily originate investments for sale or syndication to unrelated investors.

Results of Operations for Financial Services Businesses by Segment

Insurance Division

Individual Life

Operating Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Operating results:				
Revenues	$ 682	$ 672	$ 2,038	$ 1,932
Benefits and expenses	444	421	1,601	1,439
Adjusted operating income	238	251	437	493
Realized investment gains (losses), net, and related adjustments(1)	(158)	(34)	(228)	(42)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 80	$ 217	$ 209	$ 451

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

Adjusted Operating Income

2008 to 2007 Three Month Comparison. Adjusted operating income decreased $13 million, from $251 million in the third quarter of 2007 to $238 million in the third quarter of 2008. Adjusted operating income for the third quarter of 2008 includes a $79 million benefit from a net reduction in amortization of deferred policy acquisition costs and other costs due to an increased estimate of total gross profits used as a basis for amortizing

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deferred policy acquisition costs and unearned revenue reserves, based on an annual review, primarily reflecting improved future mortality expectations, compared to a similar benefit for $78 million from the annual review in the third quarter of 2007. Third quarter 2008 results also include a $53 million benefit from compensation received based on multi-year profitability of third-party products we distribute, while results for the year-ago quarter include a similar benefit amounting to $57 million. Absent the effect of these items, adjusted operating income for the third quarter of 2008 decreased $10 million from the year-ago quarter. On this basis, the decrease in adjusted operating income primarily reflects a net increase in amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves, primarily reflecting the impact of unfavorable equity markets on both separate account fund performance and variable product policy persistency. These items were partially offset by more favorable mortality experience, net of reinsurance, compared to the third quarter of the prior year. The net increase in the amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves reflects the impact of actual market performance on both actual profits and estimated future gross profits, used as the basis for amortizing deferred policy acquisition costs.

2008 to 2007 Nine Month Comparison. Adjusted operating income decreased $56 million, from $493 million in the first nine months of 2007 to $437 million in the first nine months of 2008. Adjusted operating income for the first nine months of 2008 includes a $79 million benefit from a net reduction in amortization of deferred policy acquisition costs and other costs while adjusted operating income for the first nine months of 2007 included a similar benefit for $78 million, based on an annual review, as discussed above. Results for the first nine months of 2008 also include a $53 million benefit from compensation received based on multi-year profitability of third-party products we distribute, while the first nine months of 2007 included a $57 million benefit for this item, as discussed above. Absent the effect of these items, adjusted operating income for the first nine months of 2008 decreased $53 million from the prior year period. On this basis, the decrease in adjusted operating income primarily reflects a net increase in amortization of deferred policy acquisition costs net of related amortization of unearned revenue reserves as well as lower asset based fees, primarily reflecting the impact of unfavorable equity markets on both separate account fund performance and variable product policy persistency. These decreases were partially offset by improved mortality experience, net of reinsurance, compared to the prior year.

Revenues

2008 to 2007 Three Month Comparison. Revenues, as shown in the table above under Operating Results, increased by $10 million, from $672 million in the third quarter of 2007 to $682 million in the third quarter of 2008. Premiums increased $18 million, primarily due to increased premiums on term life insurance reflecting continued growth of our in force block of term insurance. Net investment income increased $26 million, reflecting higher asset balances primarily from the financing of regulatory capital requirements associated with statutory reserves for certain term and universal life insurance policies and growth in universal life account balances due to increased policyholder deposits. Partially offsetting these increases was a decrease in policy charges and fee income of $17 million, including $36 million due to the effects of updates in both periods of our assumptions related to the amortization of unearned revenue reserves based on the annual reviews, as discussed above. Absent this item, policy charges and fee income increased $19 million primarily reflecting the increase in amortization of unearned revenue reserves, discussed above. Lower asset based fees due to lower separate account asset balances reflecting market value changes partially offset the foregoing items.

2008 to 2007 Nine Month Comparison. Revenues increased by $106 million, from $1.932 billion in the first nine months of 2007 to $2.038 billion in the first nine months of 2008. Premiums increased $62 million, primarily due to increased premiums on term life insurance reflecting continued growth of our in force block of term insurance. Net investment income increased $72 million, reflecting higher asset balances primarily from the financing of regulatory capital requirements associated with statutory reserves for certain term and universal life insurance policies and growth in universal life account balances due to increased policyholder deposits. Policy charges and fee income increased $5 million, including a $36 million decrease due to the effects of updates in both periods of our assumptions related to the amortization of unearned revenue reserves based on the annual reviews, as discussed above. Absent this item, policy charges and fee income increased $41 million primarily reflecting the increase in amortization of unearned revenue reserves, discussed above. These items were partially offset by lower asset based fees due to lower separate account asset balances reflecting market value changes.

Benefits and Expenses

2008 to 2007 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased by $23 million, from $421 million in the third quarter of 2007 to $444 million in the third quarter of 2008. Absent the impacts of the annual reviews conducted in the third quarter of both periods, as discussed above, benefits and expenses increased $60 million, from $544 million in the third quarter of 2007 to $604 million in the third quarter of 2008. On this basis, amortization of deferred policy acquisition costs increased $45 million, primarily reflecting the impact of unfavorable equity markets on both separate account fund performance and variable product policy persistency. Also on this basis, policyholders benefits, including interest credited to policyholders account balances were essentially unchanged from the prior year quarter. An increase in policyholder reserves driven by growth in our in force block of term insurance, as well as an increase in interest credited to policyholders due to growth in universal life account balances due to increased policyholder deposits, were offset by more favorable mortality experience compared to the prior year resulting from lower death claims. Interest expense increased $10 million, primarily reflecting interest on increased borrowings related to the financing of regulatory capital requirements associated with statutory reserves for certain term and universal life insurance policies.

2008 to 2007 Nine Month Comparison. Benefits and expenses increased $162 million, from $1.439 billion in the first nine months of 2007 to $1.601 billion in the first nine months of 2008. Absent the impacts of the annual reviews conducted in the third quarter of both periods, as discussed above, benefits and expenses increased $199 million, from $1.562 billion in the first nine months of 2007 to $1.761 billion in the first nine months of 2008. On this basis, amortization of deferred policy acquisition costs increased $97 million, primarily reflecting the impact of unfavorable equity markets on both separate account fund performance and variable product policy persistency. Also on this basis, policyholders benefits, including interest credited to policyholders account balances, increased $50 million, reflecting higher policyholder reserves from growth in our in force block of term insurance and an increase in interest credited to policyholders due to growth in universal life account balances due to increased policyholder deposits. Interest expense increased $36 million, primarily reflecting interest on increased borrowings related to the financing of regulatory capital requirements associated with statutory reserves for certain term and universal life insurance policies.

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Sales Results

The following table sets forth individual life insurance sales, as measured by scheduled premiums from new sales on an annualized basis and first year excess premiums and deposits on a cash-received basis, for the periods indicated. Individual life insurance sales do not correspond to revenues under U.S. GAAP. They are, however, a relevant measure of business activity. In managing our individual life insurance business, we analyze new sales on this basis because it measures the current sales performance of the business, while revenues primarily reflect the renewal persistency and aging of in force policies written in prior years and net investment income as well as current sales.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Life insurance sales(1):				
Excluding corporate-owned life insurance:				
Variable life	$ 12	$ 19	$ 52	$ 86
Universal life	52	40	147	129
Term life	53	54	156	157
Total excluding corporate-owned life insurance	117	113	355	372
Corporate-owned life insurance		1	1	9
Total	$ 117	$ 114	$ 356	$ 381

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Life insurance sales by distribution channel, excluding corporate-owned life insurance(1):				
Prudential Agents	$ 35	$ 44	$ 113	$ 128
Third party	82	69	242	244
Total	$ 117	$ 113	$ 355	$ 372

(1) Scheduled premiums from new sales on an annualized basis and first year excess premiums and deposits on a cash-received basis.

2008 to 2007 Three Month Comparison. Sales of new life insurance, excluding corporate-owned life insurance, measured as described above, increased $4 million, from $113 million in the third quarter of 2007 to $117 million in the third quarter of 2008, primarily due to higher sales of universal life products from the third party distribution channel, as the current quarter includes a greater benefit from large case sales. The increase in universal life sales was partially offset by a decrease in sales of variable life and term life products by Prudential Agents. Sales by Prudential Agents were $9 million lower than the prior year quarter, reflecting a product shift towards annuity sales. The number of Prudential Agents decreased from 2,552 at September 30, 2007 to 2,482 at September 30, 2008.

2008 to 2007 Nine Month Comparison. Sales of new life insurance, excluding corporate-owned life insurance, measured as described above, decreased $17 million, from $372 million in the first nine months of 2007 to $355 million in the first nine months of 2008, primarily due to lower sales of variable life products from Prudential Agents and third party distribution channels, as the prior year period included a greater benefit from large case sales which have uneven sales patterns. The decrease in variable life sales was partially offset by higher sales of universal life products from the third party distribution channel. Sales by Prudential Agents were $15 million lower than the prior year period, reflecting a product shift towards annuity sales. The number of Prudential Agents decreased from 2,552 at September 30, 2007 to 2,482 at September 30, 2008.

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Policy Surrender Experience

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	($ in millions)			
Cash value of surrenders	$ 188	$ 223	$ 562	$ 565
Cash value of surrenders as a percentage of mean future benefit reserves, policyholders account balances, and separate account balances	3.5%	3.8%	3.4%	3.3%

2008 to 2007 Three Month Comparison. The total cash value of surrenders decreased $35 million, from $223 million in the third quarter of 2007 to $188 million in the third quarter of 2008, reflecting a greater volume of variable product surrenders in the third quarter of 2007. Cash value of surrenders as a percentage of mean future policy benefit reserves, policyholders account balances and separate account balances decreased from 3.8% in the third quarter of 2007 to 3.5% in the third quarter of 2008.

2008 to 2007 Nine Month Comparison. The total cash value of surrenders decreased $3 million, from $565 million in the first nine months of 2007 to $562 million in the first nine months of 2008, reflecting a lower volume of variable product surrenders in the first nine months of 2008 compared to the first nine months of 2007. Cash value of surrenders as a percentage of mean future policy benefit reserves, policyholders account balances and separate account balances was relatively unchanged, from 3.3% in the first nine months of 2007 to 3.4% in the first nine months of 2008.

Individual Annuities

Operating Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Operating results:				
Revenues	$ 528	$ 633	$ 1,723	$ 1,869
Benefits and expenses	835	428	1,761	1,318

Adjusted operating income	(307)	205	(38)	551
Realized investment gains (losses), net, and related adjustments(1)	(75)	(33)	(180)	(40)
Related charges(1)(2)	19	7	51	6
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (363)	$ 179	$ (167)	$ 517

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

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

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Adjusted Operating Income

2008 to 2007 Three Month Comparison. Adjusted operating income decreased $512 million, from $205 million in the third quarter of 2007 to a loss of $307 million in the third quarter of 2008. Results for both periods include the impact of the annual reviews of the reserve for the guaranteed minimum death and income benefit features of our variable annuity products and our estimate of total gross profits used as a basis for amortizing deferred policy acquisition and other costs. Adjusted operating income for the third quarter of 2008 included $380 million of charges from these annual reviews, including $265 million relating to reserve increases for the guaranteed minimum death and income benefit features of our variable annuity products and $115 million relating to increased amortization of deferred policy acquisition and other costs. The charge relating to increased amortization of deferred policy acquisition and other costs primarily reflects the impact on gross profits of market value decreases in the underlying assets associated with our variable annuity products. The reserve increases for the guaranteed minimum death and income benefit features of our variable annuity products also reflects this impact, as well as increased cost of expected income and death benefit claims due to lower expected lapse rates for policies where the current policyholder account value is below the guaranteed minimum death benefit. Adjusted operating income for the third quarter of 2007 included $30 million of benefits from the annual reviews, reflecting market value increases in the underlying assets associated with our variable annuity products, and decreased cost of actual and expected death claims, partially offset by the impact of model refinements and higher expected lapse rates for the variable annuity business acquired from The Allstate Corporation (Allstate).

Absent the effect of the annual reviews discussed above, adjusted operating income for the third quarter of 2008 decreased $102 million from the third quarter of 2007. Contributing to this decrease is a $109 million unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features. The unfavorable variance reflects a charge of $94 million in the third quarter of 2008 compared to a benefit of $15 million in the third quarter of 2007, and was largely due to unfavorable basis risk, reflecting the underperformance of the underlying separate account funds relative to the performance we expected and utilized as a basis for developing our hedging strategy, driven by financial market conditions in the third quarter of 2008. The charge in the third quarter of 2008 includes a $66 million benefit for an update of the assumptions used in the valuation of the embedded derivatives, primarily relating to an update of implied volatility ratios to better match the actual equity indices referenced. Given the sensitivity of the fair value of both the embedded derivatives and related hedge positions to financial market conditions, the variance related to the mark-to-market of these items for a given period will be largely dependent on the financial market conditions at the end of the period. For additional information regarding the methodology used in determining the fair value of the embedded derivatives associated with our living benefit features, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Variable Annuity Optional Living Benefit Features.

Also contributing to the decrease in adjusted operating income in the third quarter of 2008 was a decrease in fee income, driven by lower average variable annuity asset balances invested in separate accounts. The declines in separate account assets were due to market depreciation and transfers of balances to our general account, partially offset by consistent positive net asset flows since the third quarter of 2007. The transfer of balances to our general account relates to an automatic rebalancing element in some of our living benefit features, which, as part of the overall product design, transferred approximately $5 billion of investments in the third quarter of 2008, out of the separate accounts and into our general account due to equity market declines. Higher average annuity account values invested in our general account resulting from these transfers also lead to improved investment results. Also serving as a partial offset to the decrease in adjusted operating income in the third quarter of 2008 was a decrease in the amortization of deferred policy acquisition costs and other costs, absent the effect of the annual reviews discussed above. The decrease primarily reflects the impact on gross profits of the unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features and the decrease in fee income, partially offset by the quarterly adjustments for current period experience.

The quarterly adjustments for current period experience referred to above reflects the cumulative impact of differences between actual gross profits for the period and the previously estimated expected gross profits for the period, as well as an update for current and future expected claims costs associated with the guaranteed minimum death and income benefit features of our variable annuity products. The third quarter of 2008 reflects charges of $38 million relating to these quarterly adjustments, due to less favorable than expected experience, while the third quarter of 2007 reflects benefits of $15 million due to better than expected experience. Total estimated gross profits, including actual experience and estimates for future periods, are used as the basis for amortizing deferred policy acquisition and other costs. In addition, total estimated revenues and guaranteed benefit claims, which are components of total gross profits, are used for establishing the reserves for the guaranteed minimum death and income benefit features of our variable annuity products. To the extent each period s actual experience differs from the previous estimate for that period, the assumed level of total gross profits may change, and a cumulative adjustment to previous periods costs, referred to as an adjustment for current period experience, may be required. The adjustment for deferred policy acquisition and other costs in the third quarter of 2008 resulted from less favorable than expected gross profits, due primarily to lower than expected fee income and the unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features. In addition to these drivers, the adjustment for the reserves for the guaranteed minimum death and income benefit features of our variable annuity products in the third quarter of 2008 also reflected higher actual contract guarantee claims costs in the third quarter of 2008, primarily driven by financial market conditions.

Further or continued deterioration of financial market conditions could result in additional market depreciation within our separate account assets and corresponding decreases in our fee income, which could lead to an impairment of some or all of the goodwill associated with our individual annuities business in future periods. As of September 30, 2008 the carrying value of this goodwill was $97 million. Further or continued market declines could also result in additional adjustments to the amortization of deferred policy acquisition and other costs, and the costs relating to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products. In light of recent market conditions, adjustments to our estimate of total gross profits to reflect actual fund performance and any corresponding changes to the future rate of return assumptions will no longer be dependent on a comparison to a statistically generated range of estimated gross profits. Instead, for purposes of evaluating deferred policy acquisition and other costs and the reserves for the guaranteed minimum death and income benefit features of our variable annuity products, total estimated gross profits will be updated for these items each quarter. We will continue to derive future rate of return assumptions using a reversion to the mean approach, a common industry practice. Under this approach, we consider actual returns over a period of time and adjust future projected returns so that the assets grow at the expected rate of return for the entire period. If the projected future rate of return is greater than our maximum future rate of return assumption, as was the case for certain groups of contracts in our annual review in the third quarter of 2008, we use the maximum future rate of return. Given that the estimates of future gross profits for certain of our variable annuity contracts are already based upon our maximum future rate of return assumption, all else being equal, further market movements could have a greater impact on the amortization of deferred policy acquisition and other costs, and the costs relating to the reserves for the guaranteed minimum death and income benefit features of our variable annuity products, in comparison to prior periods.

2008 to 2007 Nine Month Comparison. Adjusted operating income decreased $589 million, from $551 million in the first nine months of 2007 to a loss of $38 million in the first nine months of 2008. Adjusted operating income for the first nine months of 2008 included $380 million of charges and the first nine months of 2007 included $30 million of benefits from the annual reviews discussed above. Absent the effect of these annual reviews, adjusted operating income for the first nine months of 2008 decreased $179 million from the first nine months of 2007. Contributing to this decrease is a $182 million unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features. The unfavorable variance reflects a charge of $140 million in the first nine months of 2008 compared to a benefit of $42 million in the first nine months of 2007, and was largely due to unfavorable basis risk, reflecting the underperformance of the underlying separate account funds relative to the performance we expected and utilized as a basis for developing our hedging strategy, driven by financial market conditions in the first nine months of 2008. The charge in the first nine months of 2008 includes a $66 million benefit for an update of the assumptions used in the valuation of the embedded derivatives, primarily relating to an update of implied volatility ratios to better match the actual equity indices referenced.

Also contributing to the decrease in adjusted operating income in the first nine months of 2008 is a decrease in fee income, driven by lower average variable annuity asset balances invested in separate accounts. The declines in separate account assets were due to market depreciation and transfers of balances to our general account, partially offset by consistent positive net asset flows since September 30, 2007. The transfer of balances to our general account relates to an automatic rebalancing element in some of our living benefit features, which, as part of the overall product design, transferred approximately $9 billion of investments in the first nine months of 2008 out of the separate accounts and into our general account due to equity market declines. Higher average annuity account values invested in our general account resulting from these transfers, also lead to improved investment results. Also serving as a partial offset to the decrease in adjusted operating income in the third quarter of 2008 was a decrease in the amortization of deferred policy acquisition costs and other costs, absent the effect of the annual reviews discussed above. The decrease primarily reflects the impact on gross profits of the unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features and the decrease in fee income, partially offset by the quarterly adjustments for current period experience.

The quarterly adjustments for current period experience referred to above reflects the cumulative impact of differences between actual gross profits for the period and the previously estimated expected gross profits for the period, as well as an update for current and future expected claims costs associated with the guaranteed minimum death and income benefit features of our variable annuity products. The first nine months of 2008 reflects charges of $47 million relating to these quarterly adjustments, due to less favorable than expected experience, while the first nine months of 2007 reflects benefits of $37 million due to better than expected experience. Less favorable than expected gross profits in the current period were primarily due to lower than expected fee income, the unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features, and higher actual contract guarantee claims costs in the first nine months of 2008, primarily driven by financial market conditions.

Revenues

2008 to 2007 Three Month Comparison. Revenues, as shown in the table above under Operating Results, decreased $105 million, from $633 million in the third quarter of 2007 to $528 million in the third quarter of 2008. Policy charges and fees and asset management fees and other income decreased $166 million, including a $109 million unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features, as discussed above. Also contributing to the decrease in policy charges and fees and asset management fees and other income is a decrease in fee income driven by lower average variable annuity asset balances invested in separate accounts due to market depreciation and transfers of balances to our general account, partially offset by consistent positive net asset flows since the third quarter of 2007. The transfer of balances to our general account relates to an automatic rebalancing element in some of our living benefit features, which, as part of the overall product design, transferred investments out of the separate accounts and into our general account due to equity market declines. Partially offsetting this decrease, net investment income increased $56 million reflecting higher average annuity account values invested in our general account, also resulting from these transfers.

2008 to 2007 Nine Month Comparison. Revenues, as shown in the table above under Operating Results, decreased $146 million, from $1.869 billion in the first nine months of 2007 to $1.723 billion in the first nine months of 2008. Policy charges and fees and asset management fees and other income decreased $235 million, including a $182 million unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features, as discussed above. Also contributing to the decrease in policy charges and fees and asset management fees and other income is a decrease in fee income driven by lower average variable annuity asset balances invested in separate accounts due to market depreciation and the transfer of balances to our general account relating to an automatic rebalancing element in some of our living benefit features, as discussed above. Partially offsetting this decrease, net investment income increased $92 million reflecting higher average annuity account values invested in our general account, also resulting from these transfers.

Benefits and Expenses

2008 to 2007 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $407 million, from $428 million in the third quarter of 2007 to $835 million in the third quarter of 2008. Absent the impact of the annual reviews discussed above, which account for $410 million of increases, benefits and expenses decreased $3 million reflecting a decrease in the amortization of deferred policy acquisition and other costs, partially offset by an increase in interest credited to policyholders account balances and policyholders benefits. The decrease in amortization of deferred policy acquisition and other costs on this basis primarily reflects the impact on gross profits of the unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with our living benefit features and the decrease in fee income, partially offset by the quarterly adjustment for current period experience discussed above. Also on this basis, interest credited to policyholders account balances increased $29 million reflecting higher average annuity account values invested in our general account resulting from transfers relating to an automatic rebalancing element in some of our living benefit features, as discussed above. Policyholders benefits, including changes in reserves, increased $24 million on this basis, primarily reflecting the impact of the quarterly adjustment for current period experience discussed above.

2008 to 2007 Nine Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $443 million, from $1.318 billion in the first nine months of 2007 to $1.761 billion in the first nine months of 2008. Absent the impact of the annual reviews discussed above, which account for $410 million of the increase, benefits and expenses increased $33 million. On this basis, interest credited to policyholders account balances increased $61 million reflecting higher average annuity account values invested in our general account resulting from transfers relating to an automatic rebalancing element in some of our living benefit features, as discussed above. Also on this basis, policyholders benefits, including changes in reserves, increased $35 million primarily reflecting the impact of the quarterly adjustments for current period experience discussed above. Partially offsetting these increases was a decrease in the amortization of deferred policy acquisition and other costs, absent the effect of the annual reviews discussed above, primarily reflecting the impact on gross profits of the unfavorable variance in the mark-to-market of embedded derivatives and related hedge positions associated with of our living benefit features and the decrease in fee income, partially offset by the quarterly adjustments for current period experience discussed above.

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Account Values

The following table sets forth changes in account values for the individual annuity business, for the periods indicated. For our individual annuity business, assets are reported at account value, and net sales (redemptions) are gross sales minus redemptions or surrenders and withdrawals, as applicable.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Variable Annuities(1):				
Beginning total account value	$ 74,707	$ 78,968	$ 80,330	$ 74,555
Sales	2,507	2,825	8,076	8,637
Surrenders and withdrawals	(1,988)	(2,328)	(6,346)	(7,153)
Net sales	519	497	1,730	1,484
Benefit payments	(259)	(265)	(815)	(870)
Net flows	260	232	915	614
Change in market value, interest credited and other activity	(6,712)	2,295	(12,367)	6,941
Policy charges	(287)	(322)	(910)	(937)
Ending total account value(2)	$ 67,968	$ 81,173	$ 67,968	$ 81,173
Fixed Annuities:				
Beginning total account value	$ 3,394	$ 3,608	$ 3,488	$ 3,748
Sales	33	16	74	57
Surrenders and withdrawals	(71)	(69)	(185)	(224)
Net redemptions	(38)	(53)	(111)	(167)
Benefit payments	(37)	(41)	(120)	(129)
Net flows	(75)	(94)	(231)	(296)
Interest credited and other activity	32	33	95	97
Policy charges	(2)	(1)	(3)	(3)
Ending total account value	$ 3,349	$ 3,546	$ 3,349	$ 3,546

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

(2) As of September 30, 2008, variable annuity account values are invested in equity funds ($24 billion or 36%), balanced funds ($16 billion or 23%), bond funds ($9 billion or 13%), and other ($19 billion or 28%). Variable annuity account values with living benefit features were $35.1 billion and $36.0 billion as of September 30, 2008 and 2007, respectively.

2008 to 2007 Three Month Comparison. Total account values for fixed and variable annuities amounted to $71.3 billion as of September 30, 2008, a decrease of $6.8 billion from June 30, 2008. The decrease came primarily from decreases in the market value of customers variable annuities. Total account values for fixed and variable annuities as of September 30, 2008 decreased $13.4 billion from September 30, 2007, primarily reflecting decreases in the market value of customers variable annuities due to significant equity market declines, partially offset by positive variable annuity net flows. Individual variable annuity gross sales decreased by $318 million, from $2.8 billion in the third quarter of

2007 to $2.5 billion in the third quarter of 2008, due to market volatility and equity market declines. Individual variable annuity surrenders and withdrawals decreased by $340 million, from $2.3 billion in the third quarter of 2007 to $2.0 billion in the third quarter of 2008.

2008 to 2007 Nine Month Comparison. Total account values for fixed and variable annuities amounted to $71.3 billion as of September 30, 2008, a decrease of $12.5 billion from December 31, 2007. The decrease came primarily from decreases in the market value of customers variable annuities due to significant equity market declines. Total account values for fixed and variable annuities as of September 30, 2008 decreased $13.4 billion

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from September 30, 2007, primarily reflecting decreases in the market value of customers variable annuities due to significant equity market declines, partially offset by positive variable annuity net flows. Individual variable annuity gross sales decreased by $561 million, from $8.6 billion in the first nine months of 2007 to $8.1 billion in the first nine months of 2008, due to market volatility and equity market declines. Individual variable annuity surrenders and withdrawals decreased by $807 million, from $7.2 billion in the first nine months of 2007 to $6.3 billion in the first nine months of 2008.

Group Insurance

Operating Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Operating results:				
Revenues	$ 1,232	$ 1,203	$ 3,707	$ 3,619
Benefits and expenses	1,131	1,103	3,436	3,399
Adjusted operating income	101	100	271	220
Realized investment gains (losses), net, and related adjustments(1)	(46)	(32)	(249)	(20)
Related charges(2)		(1)		(1)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 55	$ 67	$ 22	$ 199

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.
(2) Benefits and expenses exclude related charges which represent the unfavorable (favorable) impact of Realized investment gains (losses), net, on interest credited to policyholders account balances.

Adjusted Operating Income

2008 to 2007 Three Month Comparison. Adjusted operating income was relatively unchanged, from $100 million in the third quarter of 2007 to $101 million in the third quarter of 2008. Both periods reflect the benefit from refinements in group disability reserves as a result of annual reviews. These annual reviews benefited both periods by $13 million and were primarily associated with our long-term disability products. Also impacting adjusted operating income was the benefit of growth and more favorable claims experience in our group disability business, which was mostly offset by lower investment yields.

2008 to 2007 Nine Month Comparison. Adjusted operating income increased $51 million, from $220 million in the first nine months of 2007 to $271 million in the first nine months of 2008, reflecting growth in our group disability business, as well as more favorable claims experience in our group life business. Also included in results for the first nine months of 2008 is a $20 million benefit from a premium adjustment recorded during the first quarter of 2008 for updated data on a large group life insurance case. Slightly offsetting these items was less favorable investment results during the first nine months of 2008. Both periods reflect the benefit from refinements in group disability reserves as a result of annual reviews. These annual reviews benefited both periods by $13 million and were primarily associated with our long-term disability products.

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Revenues

2008 to 2007 Three Month Comparison. Revenues, as shown in the table above under Operating Results, increased by $29 million, from $1.203 billion in the third quarter of 2007 to $1.232 billion in the third quarter of 2008. Group life premiums and policy charges and fee income increased by $5 million, from $784 million in the third quarter of 2007 to $789 million in the third quarter of 2008, reflecting a relatively stable business in force. Group disability premiums and policy charges and fee income, which include long-term care products, increased by $36 million from $223 million in the third quarter of 2007 to $259 million in the third quarter of 2008, reflecting growth in business in force resulting from new sales, which included the assumption of existing liabilities from third parties. Net investment income decreased by $8 million, from $170 million in the third quarter of 2007 to $162 million in the third quarter of 2008, primarily reflecting lower investment yields.

2008 to 2007 Nine Month Comparison. Revenues increased by $88 million, from $3.619 billion in the first nine months of 2007 to $3.707 billion in the first nine months of 2008. Group life premiums and policy charges and fee income decreased by $13 million, from $2.405 billion in the first nine months of 2007 to $2.392 billion in the first nine months of 2008, primarily reflecting lower net premiums and policy charges and fee income from experience-rated group life business resulting from the decrease in policyholder benefits on these contracts as discussed below. Also contributing to this decrease were lower premiums from non-experience-rated group life business due to reduced business in force, as the level of lapses exceeded new sales in the current year. Lapse activity remained relatively constant as group life persistency was unchanged at 94% in both periods. Offsetting these decreases is the premium adjustment for updated data on a large case as discussed above. Group disability premiums and policy charges and fee income, which include long-term care products, increased by $114 million from $650 million in the first nine months of 2007 to $764 million in the first nine months of 2008. This increase reflects growth in business in force resulting from new sales, which included the assumption of existing liabilities from third parties during the first nine months of 2008, exceeding the level of lapses, which increased as persistency deteriorated from 89% in the first nine months of 2007 to 87% in the first nine months of 2008. The group life and group disability persistency are reflective of continuing competitive pricing in the marketplace and the pricing discipline we apply in writing business. Net investment income declined $14 million, from $500 million in the first nine months of 2007 to $486 million in the first nine months of 2008, as the benefit from growth in invested assets was more than offset by lower investment yields.

Benefits and Expenses

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Benefits ratio(1):				
Group life	88.1%	88.4%	88.2%	90.4%
Group disability	81.5	82.1	86.4	85.9
Administrative operating expense ratio(2):				
Group life	9.4	9.8	8.6	9.6
Group disability	19.3	20.6	19.5	20.9

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

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2008 to 2007 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased by $28 million, from $1.103 billion in the third quarter of 2007 to $1.131 billion in the third quarter of 2008. This increase is primarily due to a $30 million increase in policyholders benefits, including the change in policy reserves, reflecting the growth of business in force in our group disability business.

The group life benefits ratio improved 0.3 percentage points from the third quarter of 2007 to the third quarter of 2008, due to more favorable mortality experience. The group disability benefits ratio improved 0.6 percentage points from the third quarter of 2007 to the third quarter of 2008, due to more favorable claims experience. The group life administrative operating expense ratio was relatively consistent from the third quarter of 2007 to the third quarter of 2008. The group disability administrative operating expense ratio improved from the third quarter of 2007 to the third quarter of 2008, reflecting growth in the business from new sales, as discussed above, that outpaced the related increase in operating expenses.

2008 to 2007 Nine Month Comparison. Benefits and expenses increased by $37 million, from $3.399 billion in the first nine months of 2007 to $3.436 billion in the first nine months of 2008. This increase is primarily due to a $39 million increase in policyholders benefits, including the change in policy reserves, primarily reflecting growth of business in force in our group disability business, mostly offset by more favorable claims experience in our group life businesses, which resulted in lower premiums from experience-rated group life business as discussed above.

The group life benefits ratio improved 2.2 percentage points from the first nine months of 2007 to the first nine months of 2008, due to more favorable mortality experience combined with the benefit from a premium adjustment for updated data on a large case. The group disability benefits ratio deteriorated 0.5 percentage points from the first nine months of 2007 to the first nine months of 2008, due to slightly less favorable claims experience. The group life administrative operating expense ratio improved from the first nine months of 2007 to the first nine months of 2008, as gross premiums increased, primarily from the experience-rated group life business, while operating expenses were relatively unchanged. The group disability administrative operating expense ratio improved from the first nine months of 2007 to the first nine months of 2008, reflecting growth in the business from new sales, as discussed above, that outpaced the related increase in operating expenses.

Sales Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
New annualized premiums(1):				
Group life	$ 70	$ 33	$ 212	$ 162
Group disability(2)	47	21	178	139
Total	$ 117	$ 54	$ 390	$ 301

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

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2008 to 2007 Three Month Comparison. Total new annualized premiums increased $63 million, from $54 million in the third quarter of 2007 to $117 million in the third quarter of 2008. Group life sales increased $37 million driven primarily by several large case sales during the third quarter of 2008. Group disability sales increased $26 million during the third quarter of 2008 due to a significant large case disability sale and higher long-term care sales.

2008 to 2007 Nine Month Comparison. Total new annualized premiums increased $89 million, from $301 million in the first nine months of 2007 to $390 million in the first nine months of 2008. Group life sales increased $50 million driven primarily by increased large case sales to both new and existing customers and higher premiums related to the assumption of existing liabilities from third parties. Group disability sales increased $39 million due to increased sales of large case disability products, which reflect a benefit from the assumption of existing liabilities from third parties, and higher sales of long-term care products. Our sales are reflective of the continuing competitive pricing in the marketplace and the pricing discipline we apply in writing business.

Investment Division

Asset Management

Operating Results

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

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(in millions)			
Operating results:				
Revenues	$ 345	$ 558	$ 1,457	$ 1,693
Expenses	353	397	1,156	1,190
Adjusted operating income	(8)	161	301	503
Realized investment gains (losses), net, and related adjustments(1)	4	9	6	7
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (4)	$ 170	$ 307	$ 510

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

In 2008, we classified our commercial mortgage securitization operations as a divested business, reflecting our decision to exit this business. As a result of this decision, these operations, which involved the origination and purchase of commercial mortgage loans that we in turn would aggregate and sell into commercial mortgage-backed securitization transactions, together with related hedging activities, are excluded from the Asset Management segment and included in Corporate and Other operations as a divested business. Accordingly, these results are excluded from adjusted operating income, with prior period results being adjusted to reflect such reclassification. These operations had pre-tax losses of $6 million and $129 million for the three and nine months ended September 30, 2008, respectively. We retained and continue the remainder of our commercial mortgage origination, servicing and other commercial mortgage related activities, which remain a part of our Asset Management segment.

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Adjusted Operating Income

2008 to 2007 Three Month Comparison. Adjusted operating income decreased $169 million, from income of $161 million in the third quarter of 2007 to a loss of $8 million in the third quarter of 2008. The decrease in adjusted operating income is largely attributable to unfavorable results from the segment s proprietary investing business. Results of the segment s proprietary investing business included losses of $108 million in the third quarter of 2008, compared to income of $10 million in the third quarter of 2007, from investment results in fixed income and equity investments, as well as a decline in real estate proprietary investing. The third quarter of 2008 includes $76 million in losses attributed to an investment in a fixed income fund. Subsequent to September 30, 2008, the Asset Management business gave notice of its intention to withdraw its investment from this fixed income fund, which was $286 million at September 30, 2008, with the timing of the withdrawal and amount to be received depending on market conditions. We anticipate making further reductions in certain equity investments. Results for the third quarter of 2008 also reflect lower performance based incentive fees, primarily related to institutional real estate funds, in addition to higher expenses. These decreases were partially offset by increased asset management fees primarily from institutional customer assets as a result of net asset flows.

2008 to 2007 Nine Month Comparison. Adjusted operating income decreased $202 million, from $503 million in the first nine months of 2007 to $301 million in the first nine months of 2008. The decrease in adjusted operating income is largely attributable to unfavorable results from the segment s proprietary investing business. Results of the segment s proprietary investing business included losses of $84 million in the first nine months of 2008, compared to income of $60 million in the first nine months of 2007, from investment results in fixed income and equity investments. The segment s results for the first nine months of 2008 also included a decrease in performance based incentive fees, primarily related to our real estate investment management activities, and higher compensation costs. Results benefited from an increase in asset management fees of $60 million, primarily from institutional customer assets as a result of increased asset values due to net asset flows, in addition to higher income related to securities lending activities in the first nine months of 2008.

Revenues

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	**2007**	**2008**	**2007**
		(in millions)		
Revenues by type:				
Asset management fees	$ 289	$ 265	$ 858	$ 798
Incentive, transaction, principal investing and capital markets revenues	(49)	133	191	423
Service, distribution and other revenues(1)	105	160	408	472
Total revenues	$ 345	$ 558	$ 1,457	$ 1,693

(1) Includes revenues under a contractual arrangement with Wachovia Securities, to provide essentially a fixed fee for managed account services. This arrangement expired with respect to most services provided as of July 1, 2008. Revenues in the three and nine months ended September 30, 2008 included $3 million and $18 million, respectively, for those managed account services. Also includes payments from Wachovia Corporation under an agreement dated as of July 30, 2004 implementing arrangements with respect to money market mutual funds in connection with the combination of our retail securities brokerage

and clearing operations with those of Wachovia Corporation. The agreement extends for ten years after termination of the joint venture. The revenue from Wachovia Corporation under this agreement was $14 million and $13 million in the three months ended September 30, 2008 and 2007, respectively, and $42 million and $38 million in the nine months ended September 30, 2008 and 2007, respectively.

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	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(in millions)			
Asset management fees by source:				
Institutional customers	$ 138	$ 118	$ 407	$ 358
Retail customers(1)	83	87	249	258
General account	68	60	202	182
Total asset management fees	$ 289	$ 265	$ 858	$ 798

(1) Consists of individual mutual funds and both variable annuities and variable life insurance asset management revenues from our separate accounts. This also includes funds invested in proprietary mutual funds through our defined contribution plan products. Revenues from fixed annuities and the fixed rate options of both variable annuities and variable life insurance are included in the general account.

	September 30, 2008	September 30, 2007
	(in billions)	
Assets Under Management (at fair market value):		
Institutional customers(1)	$ 170.9	$ 170.1
Retail customers(2)	75.4	88.5
General account	175.2	171.6
Total	$ 421.5	$ 430.2

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

2008 to 2007 Three Month Comparison. Revenues, as shown in the table above under Operating Results, decreased $213 million, from $558 million in the third quarter of 2007 to $345 million in the third quarter of 2008. Incentive, transaction, principal investing and capital markets revenues decreased $182 million, primarily reflecting losses from the segment s proprietary investing business driven by investment results in fixed income and equity investments, as well as lower incentive based fees primarily related to institutional real estate funds. A portion of these incentive based fees are offset in incentive compensation expense in accordance with the terms of the contractual agreements. Certain of our incentive fees are subject to positive or negative future adjustment based on cumulative fund performance in relation to specified benchmarks. As of September 30, 2008, $145 million of cumulative incentive fee revenue, net of compensation, is subject to future adjustment, compared to $130 million as of December 31, 2007. Service, distribution and other revenues decreased $55 million, including a reduction in service fee revenue, with a corresponding decrease in expense, as a result of a change in the service fee arrangement whereby Wachovia Securities is now paying investment managers directly. Also, revenues in certain consolidated real estate funds declined, which were fully offset by lower expenses related to minority interest in these funds. Asset management fees increased $25 million, primarily from the management of institutional customer assets as a result of net asset flows.

2008 to 2007 Nine Month Comparison. Revenues, as shown in the table above under Operating Results, decreased $236 million, from $1.693 billion in the first nine months of 2007 to $1.457 billion in the first nine months of 2008. Incentive, transaction, principal investing and capital markets revenues decreased $232 million primarily reflecting a decline in revenues from the segment s proprietary investing business driven by investment results in fixed income and equity investments, as well as lower incentive based fees from real estate related investments. Service, distribution and other revenues decreased $64 million including a reduction in service fee revenue, with a corresponding decrease in expense, as a result of a change in the service fee arrangement whereby Wachovia Securities is now paying investment managers directly. Also, revenues in certain consolidated real estate funds declined, which were fully offset by lower expenses related to minority interest in

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these funds. These items were partially offset by higher revenues related to securities lending activities. Asset management fees increased $60 million, primarily from the management of institutional customer assets as a result of increased asset values due to net asset flows.

Expenses

2008 to 2007 Three Month Comparison. Expenses, as shown in the table above under Operating Results, decreased $44 million, from $397 million in the third quarter of 2007 to $353 million in the third quarter of 2008, driven by lower expenses related to the decline in service fee revenue, incentive based fees, and revenues associated with certain real estate funds, as discussed above. These items are partially offset by higher compensation costs primarily reflecting increased headcount, as well as higher non-compensation costs.

2008 to 2007 Nine Month Comparison. Expenses, as shown in the table above under Operating Results, decreased $34 million, from $1.190 billion in the first nine months of 2007 to $1.156 billion in the first nine months of 2008, driven by lower expenses related to the decline in service fee revenue, incentive based fees, and revenues associated with certain real estate funds, as discussed above. These increases are partially offset by higher compensation costs and interest expense related to proprietary investing activities.

Financial Advisory

Operating Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Operating results:				
Revenues	$ (214)	$ 98	$ (127)	$ 303
Expenses	3	13	23	49
Adjusted operating income	(217)	85	(150)	254
Equity in earnings of operating joint ventures(1)	215	(97)	129	(301)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (2)	$ (12)	$ (21)	$ (47)

(1) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis on an after-tax basis as a separate line in our Unaudited Interim Consolidated Statements of Operations.

On July 1, 2003, we combined our retail securities brokerage and clearing operations with those of Wachovia Corporation, or Wachovia, and formed Wachovia Securities Financial Holdings, LLC, or Wachovia Securities, a joint venture currently headquartered in St. Louis, Missouri. As of December 31, 2007, we had a 38% ownership interest in the joint venture with Wachovia owning the remaining 62%. The transaction included certain assets and liabilities of our securities brokerage operations; however, we retained certain assets and liabilities related to the contributed businesses, including liabilities for certain litigation and regulatory matters. We have agreed with Wachovia to indemnify each other for certain losses, including losses resulting from litigation and regulatory matters relating to certain events arising from the operations of our respective contributed businesses prior to March 31, 2004.

On October 1, 2007, Wachovia completed the acquisition of A.G. Edwards, Inc., or A.G. Edwards, for $6.8 billion and on January 1, 2008 combined the retail securities brokerage business of A.G. Edwards with Wachovia Securities. As discussed in Note 11 to the Unaudited Interim Consolidated Financial Statements, we have elected the lookback option under the terms of the agreements relating to the joint venture. The lookback option permits us to delay for a period of two years ending on January 1, 2010, our decision on whether or not to make payments to avoid or limit dilution of our ownership interest in the joint venture. During this lookback period, our share in the earnings of the joint venture and one-time costs associated with the combination of the A.G. Edwards business with Wachovia Securities is based on our diluted ownership level, which is in the process of being determined. Any payments at the end of the lookback period to restore all or part of our ownership interest in the joint venture will be based on the appraised or agreed value of the joint venture excluding the A.G. Edwards business as well as the A.G. Edwards business. In such event, we may also need to make a true-up payment of one-time costs incurred during the lookback period associated with the combination to reflect the incremental increase in our ownership interest in the joint venture. Alternatively, at the end of the lookback period, we may 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, the date of the combination of the A.G. Edwards business with Wachovia Securities.

We also retain our separate right to put our joint venture interests to Wachovia at any time after July 1, 2008 based on the appraised value of the joint venture, including the A.G. Edwards business, determined as if it were a public company and including a control premium such as would apply in the case of a sale of 100% of its common equity. However, if in connection with the lookback option we elect at the end of the lookback period to make payments to avoid or limit dilution, we may not exercise this put option prior to the first anniversary of the end of the lookback period. The agreement between Prudential Financial and Wachovia also gives us put rights, and Wachovia call rights, in certain other specified circumstances, at prices determined in accordance with the agreement.

We have had negotiations with Wachovia concerning possible modifications to the terms of the existing agreements relating to the joint venture. Based upon the existing agreements and our estimates of the values of the A.G. Edwards business and the joint venture excluding the A.G. Edwards business, we adjusted the carrying value of our ownership interest in the joint venture effective as of January 1, 2008 to reflect the addition of that business and the dilution of our 38% ownership level and to record the value of the above described rights under the lookback option. As a result, effective January 1, 2008, we recognized an increase to Additional paid-in capital of $977 million, net of tax. Our recorded share of pre-tax losses from the joint venture of $129 million for the nine months ended September 30, 2008, reflects our estimated diluted ownership level based upon the existing agreements and our estimates of the values of the A.G. Edwards business and the joint venture excluding the A.G. Edwards business. As noted above, we have had negotiations with Wachovia concerning possible modifications to the terms of the existing agreements relating to the joint venture. Such modifications, if agreed to, as well as the establishment of definitive agreed or appraised values for the A.G. Edwards business and the joint venture excluding the A.G. Edwards business, will result in an adjustment to the credit to equity and a true-up to the earnings from the joint venture for any difference between the diluted ownership percentage used to record earnings for the nine months ended September 30, 2008 and the finally determined diluted ownership percentage. We do not anticipate any such adjustment to have a material effect on our reported results of operations.

On October 3, 2008, Wachovia and Wells Fargo & Company (Wells Fargo) announced that they had entered into an Agreement and Plan of Merger, pursuant to which Wells Fargo will acquire all of Wachovia Corporation and all its businesses and obligations. Wachovia has notified the Company that Wells Fargo s brokerage business will be contributed to the joint venture in accordance with the existing joint venture agreements.

Earnings of the joint venture included in the results of the Financial Advisory segment are subject to certain risks pertaining to the joint venture operations, including customer claims, litigation and regulatory investigations affecting Wachovia Securities businesses. Such customer claims, litigation and regulatory matters include matters typical for retail securities brokerage and clearing operations and matters unique to the joint venture operations. In recent months, following the failure in early 2008 of the auctions which set the rates for most

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auction rate securities, Wachovia Securities has become the subject of customer complaints, legal actions, including a putative class action, and investigations by securities regulators and agencies relating to Wachovia Securities role in the underwriting, sale and auction of auction rate securities. On August 15, 2008, Wachovia announced that it had reached an agreement in principle for a global settlement of investigations concerning the underwriting, sale and subsequent auction of certain auction rate securities by subsidiaries of Wachovia Securities and had recorded an increase to legal reserves. The Company s recorded share of pre-tax earnings from the joint venture for the nine months ended September 30, 2008 includes $235 million, which is the Company s share of this charge.

2008 to 2007 Three Month Comparison. Adjusted operating income decreased $302 million, from income of $85 million in the third quarter of 2007 to a loss of $217 million in the third quarter of 2008. The segment s results for the third quarter of 2008 include our share of earnings from Wachovia Securities, on a pre-tax basis, of a loss of $215 million, based on our estimated diluted ownership level, as discussed above, compared to income of $97 million for the third quarter of 2007. The results of Wachovia Securities for the third quarter of 2008 include a charge of $235 million related to the agreement in principle for a global settlement concerning the underwriting, sale and subsequent auction of certain auction rate securities, as discussed above, transition costs of $37 million related to the combination of the A.G. Edwards business with Wachovia Securities, and a lower level of fee and commission income, as compared to the prior year quarter. The segment s results also include expenses of $2 million in the third quarter of 2008 related to obligations and costs we retained in connection with the contributed businesses, compared to $12 million in the third quarter of 2007, primarily for litigation and regulatory matters.

2008 to 2007 Nine Month Comparison. Adjusted operating income decreased $404 million, from income of $254 million in the first nine months of 2007 to a loss of $150 million in the first nine months of 2008. The segment s results for the first nine months of 2008 include our share of earnings from Wachovia Securities, on a pre-tax basis, of a loss of $129 million, based on our estimated diluted ownership level, as discussed above, compared to income of $301 million for the first nine months of 2007. The results of Wachovia Securities for the first nine months of 2008 include a charge of $235 million related to the global settlement concerning the underwriting, sale and subsequent auction of certain auction rate securities, as discussed above, in addition to transition costs in the first nine months of 2008 of $130 million related to the combination of the A.G. Edwards business with Wachovia Securities. The results of Wachovia Securities for the first nine months of 2007 benefited from higher fee and commission income, including a greater contribution from equity syndication activity of the joint venture. The segment s results also include expenses of $21 million in the first nine months of 2008 related to obligations and costs we retained in connection with the contributed businesses, primarily for litigation and regulatory matters, compared to $47 million in the first nine months of 2007.

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Retirement

Operating Results

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

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(in millions)			
Operating results:				
Revenues	$ 1,118	$ 1,195	$ 3,592	$ 3,508
Benefits and expenses	985	1,130	3,194	3,157
Adjusted operating income	133	65	398	351
Realized investment gains (losses), net, and related adjustments(1)	(242)	(79)	(677)	(137)
Related charges(2)	6	2	2	(2)
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	(410)	112	(683)	30
Change in experience-rated contractholder liabilities due to asset value changes(4)	264	(82)	446	(18)
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (249)	$ 18	$ (514)	$ 224

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

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

During the third quarter of 2008 we entered into an agreement to acquire MullinTBG Insurance Agency Services, LLC and related entities (MullinTBG), a provider of executive benefit solutions and financing strategies, including nonqualified executive deferred compensation plans. The acquisition closed on October 10, 2008 and included approximately $8 billion of nonqualified full service retirement account values, which will not be reported on our balance sheet.

Adjusted Operating Income

2008 to 2007 Three Month Comparison. Adjusted operating income for the Retirement segment increased $68 million, from $65 million in the third quarter of 2007 to $133 million in the third quarter of 2008. Included within adjusted operating income in the third quarter of 2007 is an $81 million charge reflecting payments made to plan clients related to a legal action filed against an unaffiliated asset manager, State Street Global Advisors, Inc., or SSgA. This action seeks, among other relief, restitution of certain losses experienced by plan clients attributable to certain investment funds managed by SSgA as to which we believe SSgA employed investment strategies and practices that were misrepresented by SSgA and failed to exercise the standard of care of a prudent investment manager. In order to protect the interests of the affected plans and their participants while we pursue these remedies, we have made payments to affected plan clients that authorize us to proceed on their behalf. Results for both periods include the impact of an annual review of our estimate of total gross profits used as a basis for amortizing deferred policy acquisition costs and valuation of business acquired. Adjusted operating income for the third quarter of 2008 included a $21 million charge from the annual review, primarily reflecting a decrease in our estimate of future gross profits including a decline in our asset-based profit assumptions and an increase in our expense assumptions. Adjusted operating income for the third quarter of 2007 included a $1 million charge from the annual review. In addition, the third quarter of 2008 includes a $29 million benefit from a reduction in the amortization of valuation of business acquired due to a cumulative adjustment relating to the calculation of actual and expected gross profits.

Excluding the items discussed above, adjusted operating income decreased $22 million compared to the third quarter of 2007 reflecting lower adjusted operating income in our full service business, and, to a lesser extent, in our institutional investment products business. The decrease in adjusted operating income relating to our full service business was primarily attributable to an increase in general and administrative expenses, driven by expenses incurred to expand our product and service capabilities, and a decrease in asset management fees, driven by a decrease in average full service fee-based retirement account values primarily resulting from equity market depreciation. Asset management fees and fee income from the acquired retirement business of Union Bank of California, N.A. were largely offset by expenses relating to the acquired business. The decrease in our institutional investment products business primarily reflects an unfavorable variance in the mark to market of equity investments required in certain of our separate account products. Investment results for this business were relatively unchanged, as lower portfolio yields, were partially offset by a larger base of invested assets, driven by sales of guaranteed investment and structured settlement products in the institutional and retail markets. Also contributing to investment results was the accretion into net investment income in the third quarter of 2008 of $8 million relating to fixed maturity other-than-temporary impairments recognized in previous periods. For a further discussion of our policies regarding other-than-temporary declines in investment value, the related methodology for recording fixed maturity other-than-temporary impairments and the subsequent accretion into net investment income, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses below.

2008 to 2007 Nine Month Comparison. Adjusted operating income for the Retirement segment increased $47 million, from $351 million in the first nine months of 2007 to $398 million in the first nine months of 2008. Included within adjusted operating income in the first nine months of 2007 is an $81 million charge reflecting payments made to plan clients related to a legal action filed against an unaffiliated asset manager, as discussed above. Results for both periods include the impact of an annual review of our estimate of total gross profits used as a basis for amortizing deferred policy acquisition costs and valuation of business acquired. Adjusted operating income for the first nine months of 2008 and 2007 included a $21 million charge and a $1 million charge, respectively, from these annual reviews, as discussed above. In addition, the first nine months of 2008 includes a $29 million benefit from a reduction in the amortization of valuation of business acquired due to a cumulative adjustment relating to the calculation of actual and expected gross profits.

Excluding the items discussed above, adjusted operating income decreased $43 million compared to the first nine months of 2007 reflecting lower adjusted operating income in our full service business, partially offset by improved results for our institutional investment products business. The decrease relating to the full service business was primarily attributable to higher general and administrative expenses, driven by expenses incurred to expand our product and service capabilities, and a $8 million loss in the first nine months of 2008 relating to the acquired retirement business of Union Bank of California, N.A. Results from the acquired business include costs related to an interim service agreement with Union Bank of California, N.A., which covers the integration period, as well as $6 million of transition costs. In addition, asset management fees, excluding the impact of this acquisition, declined, driven by a decrease in average full service fee-based retirement account values primarily resulting from equity market depreciation. Improved results in our institutional investment products business primarily reflect more favorable case experience related to our group annuity block of business, partially offset by an unfavorable variance in the mark to market of equity investments required in certain of our separate account products. Investment results for this business were relatively unchanged, as a larger base of invested assets, driven by sales of guaranteed investment and structured settlement products in the institutional and retail markets, were offset by lower portfolio yields and negative earnings in the first nine months of 2008 relating to a single equity method investment in a fixed income fund. Also contributing to the investment results was the accretion into net investment income in the first nine months of 2008 of $12 million relating to fixed maturity other-than temporary impairments recognized in previous periods, as discussed above.

Revenues

2008 to 2007 Three Month Comparison. Revenues, as shown in the table above under Operating Results, decreased $77 million, from $1.195 billion in the third quarter of 2007 to $1.118 billion in the third quarter of 2008. Net investment income decreased $51 million, primarily reflecting lower portfolio yields, including lower interest rates on floating rate investments due to rate resets, lower balances of investments supported by borrowings, and an unfavorable variance in the mark to market of equity investments required in certain of our separate account products, partially offset by a larger base of invested assets, driven by sales of guaranteed investment and structured settlement products in the institutional and retail markets. Also serving as a partial offset to the decline in investment results was the accretion into net investment income in the third quarter of 2008 of $9 million relating to fixed maturity other-than-temporary impairments recognized in previous periods. Premiums decreased $31 million, driven by lower life-contingent structured settlement sales, and resulted in a corresponding decrease in policyholders benefits, including the change in policy reserves, as discussed below. Partially offsetting these decreases, policy charges and fee income and asset management fees and other income increased $5 million, including $7 million of revenues in the third quarter of 2008 associated with the acquired retirement business of Union Bank of California, N.A., as well as increased net settlements on interest rate swaps used to manage the duration of the investment portfolio. Excluding the impact of this acquisition, asset management fees declined, driven by a decrease in average full service fee-based retirement account values primarily resulting from equity market depreciation.

2008 to 2007 Nine Month Comparison. Revenues, as shown in the table above under Operating Results, increased $84 million, from $3.508 billion in the first nine months of 2007 to $3.592 billion in the first nine months of 2008. Premiums increased $140 million, driven by higher single premium group annuity and life-contingent structured settlement sales, and resulted in a corresponding increase in policyholders benefits, including the change in policy reserves, as discussed below. In addition, policy charges and fee income and asset management fees and other income increased $20 million including $19 million of revenues associated with the acquired retirement business of Union Bank of California, N.A., as well as increased net settlements on interest rate swaps used to manage the duration of the investment portfolio. Excluding the impact of this acquisition, asset management fees declined, driven by a decrease in average full service fee-based retirement account values primarily resulting from equity market depreciation. Partially offsetting these increases, net investment income decreased $76 million, primarily reflecting lower portfolio yields, including lower interest rates on floating rate investments due to rate resets, lower balances of investments supported by borrowings, an unfavorable variance in the mark to market of equity investments required in certain of our separate account products and negative earnings in the first nine months of 2008 relating to a single equity method investment in a fixed income fund. The decreases in net investment income were partially offset by a larger base of invested assets, driven by sales of guaranteed investment and structured settlement products in the institutional and retail markets and the accretion into net investment income in the first nine months of 2008 of $14 million relating to fixed maturity other-than-temporary impairments recognized in previous periods.

Benefits and Expenses

2008 to 2007 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, decreased $145 million, from $1.130 billion in the third quarter of 2007 to $985 million in the third quarter of 2008. Absent the impact of the payments made to plan clients related to a legal action filed against an unaffiliated asset manager, the annual reviews, and the cumulative adjustment discussed above, which

account for $90 million of the decrease, benefits and expenses decreased $55 million. On this basis, policyholders benefits, including the change in policy reserves, decreased $41 million, primarily reflecting the decrease in premiums on lower life-contingent structured settlement sales discussed above. In addition, interest expense decreased $38 million primarily due to lower borrowings used to support investments and lower interest rates on these borrowings. Partially offsetting these items, general and administrative expenses, net of capitalization, and amortization of acquisition costs, increased $14 million excluding the items mentioned above, driven by expenses incurred to expand our full service product and service capabilities. Interest credited to policyholders account balances increased $10 million, primarily reflecting a greater base of guaranteed investment products sold in the institutional and retail markets, partially offset by lower crediting rates on floating rate guaranteed investment product liabilities due to rate resets.

2008 to 2007 Nine Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $37 million, from $3.157 billion in the first nine months of 2007 to $3.194 billion in the first nine months of 2008. Absent the impact of the payments made to plan clients related to a legal action filed against an unaffiliated asset manager, the annual reviews, and the cumulative adjustment discussed above, which account for a $90 million decrease, benefits and expenses increased $127 million. On this basis, policyholders benefits, including the change in policy reserves, increased $113 million primarily reflecting the increase in premiums on higher single premium group annuity and life-contingent structured settlement sales discussed above, partially offset by more favorable case experience related to a group annuity block of business and lower interest on general account reserves. In addition, interest credited to policyholders account balances increased $66 million, primarily reflecting a greater base of guaranteed investment products sold in the institutional and retail markets, partially offset by lower crediting rates on floating rate guaranteed investment product liabilities due to rate resets. General and administrative expenses, net of capitalization, and amortization of acquisition costs, increased $36 million excluding the items mentioned above, and included $27 million of costs in the first nine months of 2008 associated with the acquired retirement business of Union Bank of California, N.A., including costs related to an interim services agreement with Union Bank of California, N.A., which covered the integration period, as well as $6 million of transition costs. Expenses incurred to expand our full service product and service capabilities also contributed to the increase. Partially offsetting these increases was an $88 million decrease in interest expense, primarily reflecting lower borrowings used to support investments and lower interest rates on these borrowings.

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Sales Results and Account Values

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Full Service(1):				
Beginning total account value	$ 106,917	$ 104,033	$ 112,192	$ 97,430
Deposits and sales	3,276	3,219	12,392	10,434
Withdrawals and benefits	(2,883)	(3,309)	(11,182)	(9,945)
Change in market value, interest credited and interest income(2)	(6,847)	1,658	(12,939)	7,682
Ending total account value	$ 100,463	$ 105,601	$ 100,463	$ 105,601
Net additions (withdrawals)	$ 393	$ (90)	$ 1,210	$ 489
Institutional Investment Products(3):				
Beginning total account value	$ 51,513	$ 50,926	$ 51,591	$ 50,269
Additions	1,052	545	4,468	3,675
Withdrawals and benefits(4)	(2,114)	(1,193)	(5,760)	(4,003)
Change in market value, interest credited and interest income	153	933	955	1,865
Other(4)(5)	(563)	416	(1,213)	(179)
Ending total account value	$ 50,041	$ 51,627	$ 50,041	$ 51,627
Net additions (withdrawals)	$ (1,062)	$ (648)	$ (1,292)	$ (328)

(1) Ending total account value for the full service business includes assets of Prudential s retirement plans of $5.3 billion and $5.9 billion as of September 30, 2008 and 2007, respectively.
(2) Change in market value, interest credited and interest income includes $511 million for the nine months ended September 30, 2007 representing a transfer from Institutional Investment Products to Full Service as a result of one client s change in contract form.
(3) Ending total account value for the institutional investment products business includes assets of Prudential s retirement plans of $5.0 billion and $5.3 billion as of September 30, 2008 and 2007, respectively.
(4) Transfers between the Retirement and Asset Management segments, previously presented within Withdrawals and benefits, have been reclassified to Other for all periods presented.
(5) Other includes transfers from (to) the Asset Management segment of $(20) million and $407 million for the three months ended September 30, 2008 and 2007, respectively, and $(111) million and $75 million for the nine months ended September 30, 2008 and 2007, respectively. Other also includes $(511) million for the nine months ended September 30, 2007 representing a transfer from Institutional Investment Products to Full Service as a result of one client s change in contract form. Remaining amounts for all periods presented primarily represents changes in asset balances for externally managed accounts.

2008 to 2007 Three Month Comparison. Account values in our full service business amounted to $100.5 billion as of September 30, 2008, a decrease of $6.5 billion from June 30, 2008. The decrease in account values was driven primarily by a decrease in the market value of customer funds due to declines in the equity markets, partially offset by net additions of $393 million. Account values in our full service business as of September 30, 2008 decreased $5.1 billion from September 30, 2007, primarily driven by a decrease in the market value of customer funds due to declines in the equity markets, partially offset by $7.3 billion of account values acquired from Union Bank of California, N.A. and net additions of $1.7 billion. Net additions (withdrawals) increased $483 million, from net withdrawals of $90 million in the third quarter of 2007 to net additions of $393 million in the third quarter of 2008, reflecting higher participant contributions and lower plan lapses, partially offset by lower new plan sales.

Account values in our institutional investment products business amounted to $50.0 billion as of September 30, 2008, a decrease of $1.5 billion from June 30, 2008, primarily reflecting net withdrawals of $1.1 billion, driven by the impact of scheduled withdrawals in our guaranteed investment products, and a decrease in the market value of customer funds. Account values in our institutional investment products business as of September 30, 2008 decreased $1.6 billion from September 30, 2007, primarily reflecting net withdrawals, partially offset by interest on general account business. Net additions (withdrawals) decreased $414 million, from net withdrawals of $648 million in the third quarter of 2007 to net withdrawals of $1.1 billion in the third quarter of 2008. This decrease primarily reflects higher withdrawals driven by scheduled withdrawals in our guaranteed investment products, partially offset by higher additions due to higher sales of guaranteed investment products in the institutional and retail markets.

2008 to 2007 Nine Month Comparison. Account values in our full service business amounted to $100.5 billion as of September 30, 2008, a decrease of $11.7 billion from December 31, 2007. The decrease in account values was driven primarily by a decrease in the market value of customer funds due to declines in the equity markets, partially offset by net additions of $1.2 billion. Account values in our full service business as of September 30, 2008 decreased $5.1 billion from September 30, 2007, primarily driven by a decrease in the market value of customer funds due to declines in the equity markets, partially offset by $7.3 billion of account values acquired from Union Bank of California, N.A. and net additions of $1.7 billion. Net additions increased $721 million, from $489 million in the first nine months of 2007 to $1.2 billion in the first nine months of 2008, reflecting higher new plan sales and participant contributions, partially offset by higher plan lapses. New plan sales in the first nine months of 2008 included six large client sales totaling $1.6 billion. Plan lapses in the first nine months of 2008 included $1.0 billion of lapses relating to account values acquired from Union Bank of California, N.A. These lapses primarily occurred during the final stages of the conversion of acquired account values to our systems platform, which was completed in the second quarter of 2008.

Account values in our institutional investment products business amounted to $50.0 billion as of September 30, 2008, a decrease of $1.6 billion from December 31, 2007, primarily reflecting net withdrawals of $1.3 billion, driven by the impact of scheduled withdrawals in our guaranteed investment products, and declines in the value of asset balances for externally managed accounts. Interest on general account business partially offset these decreases. Account values in our institutional investment products business as of September 30, 2008 decreased $1.6 million from September 30, 2007, primarily reflecting net withdrawals, partially offset by interest on general account business. Net additions (withdrawals) decreased $964 million, from net withdrawals of $328 million in the first nine months of 2007 to net withdrawals of $1.3 billion in the first nine months of 2008. This decrease primarily reflects higher withdrawals driven by scheduled withdrawals in our guaranteed investment products, partially offset by higher additions due to higher sales of guaranteed investment and structured settlement products in the institutional and retail markets.

International Insurance and Investments Division

Impact of foreign currency exchange rate movements on earnings

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

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Forward currency hedging program

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Impact on revenues and adjusted operating income:				
International Insurance	$ 8	$ 20	$ 9	$ 81
International Investments	(1)	(6)		(11)
Total International Insurance and Investments Division	$ 7	$ 14	$ 9	$ 70

Results of Corporate and Other operations include any differences between the translation adjustments recorded by the segments and the gains or losses recorded from the forward currency contracts that settled during the period. The consolidated net impact of this program recorded within the Corporate and Other operations were gains of $5 million for both the three months ended September 30, 2008 and 2007, and a gain of $7 million and a loss of $5 million for the nine months ended September 30, 2008 and 2007, respectively.

The notional amount of these forward currency contracts was $3.3 billion and $2.8 billion as of September 30, 2008 and December 31, 2007, respectively, of which $2.3 billion and $1.9 billion as of September 30, 2008 and December 31, 2007, respectively, related to our Japanese insurance operations.

Dual currency and synthetic dual currency investments

In addition, our Japanese insurance operations also hold dual currency investments in the form of fixed maturities and loans. The principal of these dual currency investments are yen-denominated while the related interest income is U.S. dollar denominated. These investments are the economic equivalent of exchanging what would otherwise be fixed streams of yen-denominated interest income for fixed streams of U.S. dollars. Our Japanese insurance operations also hold investments in yen-denominated investments that have been coupled with cross-currency coupon swap agreements, creating synthetic dual currency investments. The yen/U.S. dollar exchange rate is effectively fixed, as we are obligated in future periods to exchange fixed amounts of Japanese yen interest payments generated by the yen-denominated investments for U.S. dollars at the yen/U.S. dollar exchange rates specified by the cross-currency coupon swap agreements. As of September 30, 2008 and December 31, 2007, the notional amount of these investments was ¥496 billion, or $4.4 billion, and ¥538 billion, or $4.8 billion, respectively, based upon the foreign currency exchange rates applicable at the time these investments were acquired. For the three months ended September 30, 2008 and 2007, the weighted average yields generated by these investments were 2.3% in both periods. For the nine months ended September 30, 2008 and 2007, the weighted average yields generated by these investments were 2.3% and 2.4%, respectively.

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

	September 30, 2008	December 31, 2007
	(in millions)	
Cross-currency coupon swap agreements	$ 35	$ 40
Foreign exchange component of interest on dual currency investments	(24)	(11)
Total	$ 11	$ 29

The table below presents as of September 30, 2008, the yen-denominated earnings subject to our dual currency and synthetic dual currency investments and the related weighted average exchange rates resulting from these investments.

Year	(1) Interest component of dual currency investments	Cross-currency coupon swap element of synthetic dual currency investments	Yen-denominated earnings subject to these investments	Weighted average exchange rate per U.S. Dollar
		(in billions)		(Yen per $)
Remainder of 2008	¥ 0.9	¥ 1.6	¥ 2.5	91.9
2009	3.4	5.8	9.2	88.7
2010	3.2	4.9	8.1	87.4
2011	3.1	3.8	6.9	85.6
2012-2034	36.0	56.4	92.4	78.8
Total	¥ 46.6	¥ 72.5	¥ 119.1	80.7

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

The table above does not reflect the forward currency income hedging program discussed above. In establishing the level of yen-denominated earnings that will be hedged through the forward currency income hedging program we take into account the anticipated level of U.S. dollar denominated earnings that will be generated by dual currency and synthetic dual currency investments, as well as the anticipated level of U.S. dollar denominated earnings that will be generated by U.S. dollar denominated products and investments, which are discussed in greater detail below.

Impact of foreign currency exchange rate movements on equity

Hedges of U.S. GAAP equity and available economic capital

We also seek to mitigate the risk that future unfavorable foreign currency exchange rate movements will reduce our U.S. dollar equivalent equity in foreign subsidiaries through various hedging strategies. In the case of our Japanese insurance operations, which constitute our most significant foreign insurance operations, we hedge 100% of our U.S. GAAP equity in these subsidiaries, excluding Accumulated other comprehensive income components of Stockholders Equity and certain other adjustments. We are in the process of developing an economic capital framework, which includes available economic capital, as discussed in Liquidity and Capital Resources Prudential Financial Economic Capital. In our Japanese insurance operations we seek to hedge a portion of the amount by which estimated available economic capital and other measures of value exceed the current value of the U.S. GAAP equity. Available economic capital represents the excess of the fair value of assets over the fair value of liabilities for the current in force block of business. We hedge a portion of the estimated available economic capital, including that portion represented by U.S. GAAP equity, in our Japanese insurance operations primarily by maintaining U.S. dollar denominated investments financed with yen-denominated liabilities and equity, as well as to a lesser extent with yen-denominated debt. In certain of our

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other foreign insurance operations, the U.S. GAAP equity exposure is mitigated by entering into forward currency contracts that generally qualify for hedge accounting treatment, and by holding U.S. dollar denominated investments.

As of September 30, 2008, our U.S. dollar denominated investments and other net assets serving as a hedge of our estimated available economic capital in our Japanese insurance operations amounted to $6.2 billion, an increase of $1.2 billion from December 31, 2007, and was principally comprised of available for sale U.S. dollar denominated investments with an amortized cost of $5.0 billion and held to maturity U.S. dollar denominated investments with an amortized cost of $1.0 billion. As of September 30, 2008, our U.S. dollar denominated investments and other net assets supporting the portion of our estimated available economic capital above our U.S. GAAP equity, excluding Accumulated other comprehensive income components of Stockholders Equity and certain other adjustments, totaled $1.9 billion and were acquired at an average exchange rate of approximately 104 yen. These amounts do not reflect the forward currency income hedging program or dual currency and synthetic dual currency investments discussed above.

The available for sale investments under U.S. GAAP are recorded at fair value on the balance sheet with unrealized changes in fair value (except as described below for impairments), including those from changes in foreign currency exchange rate movements, recorded as unrealized gains or losses in Accumulated other comprehensive income within Stockholders Equity. Changes in the U.S. GAAP equity of our Japanese insurance operations due to foreign currency exchange rate movements are also recorded in Accumulated other comprehensive income as a Currency translation adjustment. The impact of changes in foreign currency exchange rates on the U.S. GAAP equity of our Japanese insurance operations is partially offset by foreign currency exchange related changes in designated Yen denominated debt and other hedging instruments within the Currency translation adjustment account. To a larger degree the impact of foreign exchange rate changes on the U.S. GAAP equity of our Japanese insurance operations is offset by the related changes in fair value due to foreign currency exchange rate movements of the portion of the available for sale investments that supports our Japanese insurance operations U.S. GAAP equity, hence creating a natural equity hedge. For U.S. dollar denominated investments that support the portion of estimated available economic capital above our U.S. GAAP equity there is no offsetting impact to equity.

The investments designated as held to maturity under U.S. GAAP are recorded at amortized cost on the balance sheet, but are remeasured for foreign currency exchange rate movements with the related change in value recorded within Asset management fees and other income. The remeasurement related to the change in value for foreign currency exchange rate movements for these investments is excluded from adjusted operating income, as part of our application of the hedge of available economic capital.

The U.S. dollar denominated investments that hedge a portion of our estimated available economic capital in our Japanese insurance operations pay a coupon, which is reflected within Net investment income, and, therefore, included in adjusted operating income, which is approximately 200 to 300 basis points greater than what a similar yen-based investment would pay. The incremental impact of this higher yield will vary over time, and is dependent on the duration of the underlying investment, as well as interest rate environments in the U.S. and Japan at the time of the investment. See Realized Investment Gains and Losses and General Account Investments General Account Investments Investment Results for a discussion of the investment yields generated by our Japanese insurance operations.

Because these U.S. dollar denominated investments are recorded on the books of yen-based entities, foreign currency exchange movements will impact their value. To the extent the value of the yen strengthens as compared to the U.S. dollar, the value of these U.S. dollar denominated investments will decrease as a result of changes in the foreign currency exchange rates. Upon the ultimate sale or maturity of the U.S. dollar denominated investments, any realized change in value related to changes in the foreign currency exchange rates will be included in Realized gains (losses), net within the income statement and, excluded from adjusted operating income. Similarly, any impairment recognized on these investments, including those for an other-than-temporary decline in value that may include the impact of changes in foreign currency exchange rates, will be included in Realized gains (losses), net within the income statement, and, as such, excluded from adjusted operating income. See Realized Investment Gains and Losses and General Account Investments General Account Investments Fixed Maturity Securities Other-than-Temporary Impairments of Fixed Maturity Securities for a discussion of our policies regarding impairments.

During the first quarter of 2008, we began incorporating the impact of foreign currency exchange rate movements on the remaining U.S. dollar denominated net asset position of our Japanese insurance operations, which primarily relates to accrued investment income, as part of our overall application of the hedge of available economic capital. These U.S. dollar denominated assets and liabilities are remeasured for foreign currency exchange rate movements, as they are non-yen denominated items on the books of yen-based entities, and the related change in value is recorded within Asset management fees and other income. As these U.S. dollar denominated assets and liabilities are included in the determination of the Japanese insurance operations level of available economic capital, we exclude all remeasurement related to these items from adjusted operating income.

Prospectively, we will seek to continue to hedge 100% of the U.S. GAAP equity as discussed above, and, to varying degrees, the estimated available economic capital of the Japanese insurance operations, which we may accomplish through holding U.S. dollar investments within the Japanese insurance operations, through yen-denominated borrowings issued within our U.S. operations, or by other means.

In addition, as of September 30, 2008 and December 31, 2007, our international insurance operations also had $5.8 billion and $4.4 billion, respectively, of foreign currency exposure from U.S. dollar liabilities for U.S. dollar denominated products issued by these operations. These operations hold U.S. dollar denominated investments, including a significant portion that are designated as available for sale, and other related U.S. dollar denominated net assets, primarily accrued investment income, to support these products. The change in value due to changes in foreign currency exchange rate movements, or remeasurement, of the related U.S. dollar denominated assets and liabilities associated with these products is excluded from adjusted operating income.

International Insurance

The results of our International Insurance operations are translated on the basis of weighted average monthly exchange rates, and inclusive of the effects of the intercompany arrangement discussed above. To provide a better understanding of operating performance within the International Insurance segment, where indicated below, we have analyzed our results of operations excluding the effect of the year over year change in foreign currency exchange rates. Our results of operations excluding the effect of foreign currency fluctuations were derived by translating foreign currencies to U.S. dollars at uniform exchange rates for all periods presented, including, for constant dollar information discussed below, Japanese yen at a rate of 106 yen per U.S. dollar; Korean won at a rate of 950 won per U.S. dollar. In addition, for constant dollar information discussed below, activity denominated in U.S. dollars is reported based on the amounts as transacted in U.S. dollars. New annualized premiums presented on a constant exchange rate basis in the Sales Results section below reflect translation based on these same uniform exchange rates.

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Operating Results

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

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(in millions)			
Operating results:				
Revenues:				
Life Planner operations	$ 1,462	$ 1,344	$ 4,528	$ 4,011
Gibraltar Life	764	696	2,352	2,137
	2,226	2,040	6,880	6,148
Benefits and expenses:				
Life Planner operations	1,169	1,078	3,664	3,223
Gibraltar Life	597	539	1,890	1,680
	1,766	1,617	5,554	4,903
Adjusted operating income:				
Life Planner operations	293	266	864	788
Gibraltar Life	167	157	462	457
	460	423	1,326	1,245
Realized investment gains (losses), net, and related adjustments(1)	(66)	155	(441)	315
Related charges(1)(2)	(8)	(9)	(8)	(14)
Investment gains (losses) on trading account assets supporting insurance liabilities, net(3)	(124)	(76)	(236)	(22)
Change in experience-rated contractholder liabilities due to asset value changes(4)	124	76	236	22
Equity in earnings of operating joint ventures(5)			1	
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 386	$ 569	$ 878	$ 1,546

(1) Revenues exclude Realized investment gains (losses), net, and related charges and adjustments. The related charges represent the impact of Realized investment gains (losses), net, on the amortization of unearned revenue reserves. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.

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

(3) Revenues exclude net investment gains and losses on trading account assets supporting insurance liabilities. See Trading Account Assets Supporting Insurance Liabilities.

(4) Benefits and expenses exclude changes in contractholder liabilities due to asset value changes in the pool of investments supporting these experience-rated contracts. See Trading Account Assets Supporting Insurance Liabilities.

(5) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis on an after-tax basis as a separate line in our Unaudited Interim Consolidated Statements of Operations.

Adjusted Operating Income

2008 to 2007 Three Month Comparison. Adjusted operating income from Life Planner operations increased $27 million, from $266 million in the third quarter of 2007 to $293 million in third quarter of 2008, including a $1 million unfavorable impact of currency fluctuations. This increase primarily reflected the continued growth of our Japanese Life Planner operations. Also contributing to the increase were lower general and administrative

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expenses and improved investment income margins primarily due to higher investment yields reflecting the lengthening of the duration of our Japanese yen investment portfolio. Partially offsetting these increases was the lower benefit in the current quarter from a reduction in amortization of deferred policy acquisition costs primarily reflecting improved future mortality assumptions, which benefited both periods, associated with our annual review of the estimated gross profits used to amortize deferred policy acquisition costs.

Gibraltar Life s adjusted operating income increased $10 million, from $157 million in the third quarter of 2007 to $167 million in the third quarter of 2008, including a $4 million unfavorable impact of currency fluctuations. Excluding the impact of currency fluctuations, adjusted operating income for Gibraltar Life increased $14 million, primarily reflecting improved investment income margins which benefited from various investment portfolio strategies, as discussed in more detail below, and the continued growth of our U.S. dollar denominated annuity product.

2008 to 2007 Nine Month Comparison. Adjusted operating income from Life Planner operations increased $76 million, from $788 million in the first nine months of 2007 to $864 million in the first nine months of 2008 with no impact from currency fluctuations. This increase primarily reflected the continued growth of our Japanese and Korean Life Planner operations and, to a lesser extent, improved investment income margins. The improved investment income margins are primarily the result of duration lengthening in our Japanese yen investment portfolio.

Gibraltar Life s adjusted operating income increased $5 million, from $457 million in the first nine months of 2007 to $462 million in the first nine months of 2008, including an $11 million unfavorable impact of currency fluctuations. Results for the first nine months of 2007 benefited $14 million from investment income associated with a single investment joint venture, reflecting the sale of real estate within the venture. Excluding the impact of currency fluctuations and the foregoing investment income benefit to the prior year period, adjusted operating income for Gibraltar Life increased $30 million, reflecting improved investment income margins which reflect the benefits of various investment portfolio strategies, as discussed in more detail below, and the continued growth of our U.S. dollar denominated fixed annuity product. In addition, current year results benefited from more favorable mortality experience than that of the prior year. These items were partially offset by increased amortization of deferred policy acquisition costs driven by the continued growth of our U.S dollar denominated fixed annuity product.

Revenues

2008 to 2007 Three Month Comparison. Revenues, as shown in the table above under Operating Results, increased $186 million, from $2.040 billion in the third quarter of 2007 to $2.226 billion in the third quarter of 2008, including a net favorable impact of $65 million relating to currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $121 million, from $2.162 billion in the third quarter of 2007 to $2.283 billion in the third quarter of 2008.

Revenues from our Life Planner operations increased $118 million, from $1.344 billion in the third quarter of 2007 to $1.462 billion in the third quarter of 2008, including a net favorable impact of currency fluctuations of $8 million. Excluding the impact of currency fluctuations, revenues increased $110 million from the third quarter of 2007 to the third quarter of 2008. This increase in revenues came primarily from increases in premiums and policy charges and fee income of $60 million, from $1.174 billion in the third quarter of 2007 to $1.234 billion in the third quarter of 2008. Premiums and policy charges and fee income from our Japanese Life Planner operation increased $58 million, from $792 million in the third quarter of 2007 to $850 million in the third quarter of 2008, primarily reflecting growth of business in force from new sales and strong persistency. Net investment income also increased $38 million, from $215 million in the third quarter of 2007 to $253 million in the third quarter of 2008, due to asset growth and higher investment yields reflecting the lengthening of the duration of our Japanese yen investment portfolio. Through September 30, 2008, we have accomplished the duration lengthening of our Japanese yen investment portfolio by employing various strategies, including investing in longer term securities

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or entering into long-duration floating-to-fixed interest rate swaps. Reflecting the severe market dislocations that occurred in October 2008, we have begun to terminate some of these interest rate swaps during the fourth quarter of 2008. We will continue implementing strategies to lengthen the duration of our Japanese yen investment portfolio in order to better align our asset/liability matching and are seeking to replicate the duration lengthening achieved by these swaps through the purchase of longer term securities, the timing of which is constrained by market conditions and availability.

Revenues from Gibraltar Life increased $68 million, from $696 million in the third quarter of 2007 to $764 million in the third quarter of 2008, including a favorable impact from currency fluctuations of $57 million. Excluding the impact of currency fluctuations, revenues for Gibraltar Life increased $11 million, from $764 million in the third quarter of 2007 to $775 million in the third quarter of 2008. This increase reflects a $34 million increase in net investment income, from $226 million in the third quarter of 2007 to $260 million in the third quarter of 2008, driven by the continued growth of our U.S. dollar denominated annuity product, as well as higher portfolio yields from various investment portfolio strategies including increased exposure to corporate securities, increased utilization of U.S. dollar denominated investments and duration lengthening. The duration lengthening for Gibraltar is accomplished through similar means as described for our Life Planner operations above. Premiums decreased $15 million from $520 million in the third quarter of 2007 to $505 million in the third quarter of 2008, driven by a decrease in renewal premiums reflecting the attrition of existing business. Our renewal premiums have declined as the market has continued to transition from traditional products, on which we record premiums, to newer products such as those with a retirement and savings objective, for which customer funds received are recorded as deposits.

2008 to 2007 Nine Month Comparison. Revenues increased $732 million, from $6.148 billion in the first nine months of 2007 to $6.880 billion in the first nine months of 2008, including a net favorable impact of $323 million relating to currency fluctuations. Excluding the impact of currency fluctuations, revenues increased $409 million, from $6.534 billion in the first nine months of 2007 to $6.943 billion in the first nine months of 2008.

Revenues from our Life Planner operations increased $517 million, from $4.011 billion in the first nine months of 2007 to $4.528 billion in the first nine months of 2008, including a net favorable impact of currency fluctuations of $133 million. Excluding the impact of currency fluctuations, revenues increased $384 million from the first nine months of 2007 to the first nine months of 2008. This increase in revenues came primarily from increases in premiums and policy charges and fee income of $245 million, from $3.539 billion in the first nine months of 2007 to $3.784 billion in the first nine months of 2008. Premiums and policy charges and fee income from our Japanese Life Planner operation increased $204 million, from $2.440 billion in the first nine months of 2007 to $2.644 billion in the first nine months of 2008. Premiums and policy charges and fee income from our Korean operation increased $23 million, from $860 million in the first nine months of 2007 to $883 million in the first nine months of 2008. The increase in premiums and policy charges and fee income in both operations was primarily the result of growth in business in force from new sales and strong persistency. Net investment income also increased $110 million, from $609 million in the first nine months of 2007 to $719 million in the first nine months of 2008, due to asset growth and higher investment yields reflecting our continuing desire to lengthen the duration of our Japanese investment portfolio as discussed in more detail above.

Revenues from Gibraltar Life increased $215 million, from $2.137 billion in the first nine months of 2007 to $2.352 billion in the first nine months of 2008, including a favorable impact from currency fluctuations of $190 million. Excluding the impact of currency fluctuations, revenues for Gibraltar Life increased $25 million, from $2.349 billion in the first nine months of 2007 to $2.374 billion in the first nine months of 2008. This increase reflects a $65 million increase in net investment income, from $667 million in the first nine months of 2007 to $732 million in the first nine months of 2008, driven by the continued growth of our U.S. dollar denominated annuity product, as well as higher portfolio yields from various investment portfolio strategies including increased exposure to corporate securities, increased utilization of U.S. dollar denominated investments and duration lengthening as discussed in more detail above. Premiums decreased $28 million from $1.615 billion in the first nine months of 2007 to $1.587 billion in the first nine months of 2008, driven by a decrease in renewal premiums reflecting the attrition of existing business. The 13-month policy persistency declined from 93% for the nine months of 2007 to 91% in the nine months of 2008. Our renewal premiums have declined as the market has continued to transition from traditional products, on which we record premiums, to newer products such as those with a retirement and savings objective, for which customer funds received are recorded as deposits.

Benefits and Expenses

2008 to 2007 Three Month Comparison. Benefits and expenses, as shown in the table above under Operating Results, increased $149 million, from $1.617 billion in the third quarter of 2007 to $1.766 billion in the third quarter of 2008, including a net unfavorable impact of $70 million related to currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $79 million, from $1.735 billion in the third quarter of 2007 to $1.814 billion in the third quarter of 2008.

Benefits and expenses of our Life Planner operations increased $91 million, from $1.078 billion in the third quarter of 2007 to $1.169 billion in the third quarter of 2008, including a net unfavorable impact of $9 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $82 million, from $1.126 billion in the third quarter of 2007 to $1.208 billion in the third quarter of 2008. Benefits and expenses of our Japanese Life Planner operation increased $55 million from $724 million in the third quarter of 2007 to $779 million in the third quarter of 2008, primarily reflecting an increase in policyholder benefits, including changes in reserves, which was driven by the growth in business in force. Also contributing to the increase in benefits and expenses was the lower benefit in the current quarter from a reduction in amortization of deferred policy acquisition costs that benefited both periods, as discussed above. Partially offsetting these increases were lower general and administrative expenses in the current quarter.

Gibraltar Life s benefits and expenses increased $58 million, from $539 million in the third quarter of 2007 to $597 million in the third quarter of 2008, including a $61 million unfavorable impact of currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses decreased $3 million, from $609 million in the third quarter of 2007 to $606 million in the third quarter of 2008. The decrease primarily reflects a decrease in policyholder benefits, including changes in reserves, which was driven by the attrition of existing business as discussed above. Partially offsetting this decrease was higher interest credited to policyholders account balances and higher amortization of deferred policy acquisition costs both related to the continued growth of our U.S. dollar denominated annuity product.

2008 to 2007 Nine Month Comparison. Benefits and expenses increased $651 million, from $4.903 billion in the first nine months of 2007 to $5.554 billion in the first nine months of 2008, including a net unfavorable impact of $334 million related to currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $317 million, from $5.273 billion in the first nine months of 2007 to $5.590 billion in the first nine months of 2008.

Benefits and expenses of our Life Planner operations increased $441 million, from $3.223 billion in the first nine months of 2007 to $3.664 billion in the first nine months of 2008, including a net unfavorable impact of $133 million from currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $308 million, from $3.386 billion in the first nine months of 2007 to $3.694 billion in the first nine months of 2008. Benefits and expenses of our Japanese Life Planner operation increased $210 million from $2.233 billion in the first nine months of 2007 to $2.443 billion in the first nine months of 2008. Benefits and expenses from our Korean operation increased $46 million, from $817 million in the first nine months of 2007 to $863 million in first nine months of 2008. The increase in benefits and expenses in both operations reflects an increase in policyholder benefits, including changes in reserves, which was driven by the growth in business in force.

Gibraltar Life s benefits and expenses increased $210 million, from $1.680 billion in the first nine months of 2007 to $1.890 billion in the first nine months of 2008, including a $201 million unfavorable impact of currency fluctuations. Excluding the impact of currency fluctuations, benefits and expenses increased $9 million, from $1.887 billion in the first nine months of 2007 to $1.896 billion in the first nine months of 2008. This increase reflects higher interest credited to policyholders account balances and higher amortization of deferred policy acquisition costs both related to the continued growth of our U.S. dollar denominated annuity product. Partially offsetting these items is a decrease in policyholder benefits, including changes in reserves, which was driven by more favorable mortality experience, as well as the attrition of existing business as discussed above.

Sales Results

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
New annualized premiums:				
On an actual exchange rate basis:				
Life Planner operations	$ 175	$ 178	$ 598	$ 579
Gibraltar Life(1)	111	86	353	249
Total	$ 286	$ 264	$ 951	$ 828
On a constant exchange rate basis:				
Life Planner operations	$ 180	$ 186	$ 601	$ 610
Gibraltar Life(1)	112	93	355	269
Total	$ 292	$ 279	$ 956	$ 879

(1) The methodology for determining Gibraltar Life's annualized new business premium on an actual and constant exchange rate basis has been revised to more clearly report the trend of U.S. dollar product sales. Prior period amounts have been restated to conform to current presentation.

2008 to 2007 Three Month Comparison. On a constant exchange rate basis, new annualized premiums increased $13 million, from $279 million in the third quarter of 2007 to $292 million in the third quarter of 2008.

New annualized premiums, on a constant exchange rate basis, from our Life Planner operations declined $6 million primarily driven by a decline in Taiwan due to a higher level of sales in the prior year quarter as a result of an anticipated regulation change, as well as a decline in Korea reflective of the continued competitive market environment. Partially offsetting these declines was as an increase of $11 million in our Japanese operations mostly from sales of retirement income products.

New annualized premiums, on a constant exchange rate basis, from our Gibraltar Life operation increased $19 million, due to continuing strong sales of a U.S. dollar denominated retirement income product launched in the first quarter of 2008 and continuing strong sales of a new single premium yen denominated endowment product launched in the second quarter of 2008. Sales of our U.S. dollar denominated fixed annuity products was essentially flat, as increased sales of this product in our bank distribution channel was offset by lower sales from Life Advisors.

2008 to 2007 Nine Month Comparison. On a constant exchange rate basis, new annualized premiums increased $77 million, from $879 million in the first nine months of 2007 to $956 million in the first nine months of 2008.

New annualized premiums, on a constant exchange rate basis, from our Life Planner operations decreased $9 million, due to lower sales in Korea, which is reflective of the continued competitive market environment, as well as lower sales in Taiwan. Partially offsetting these declines was an increase of $13 million in our Japanese operations mostly from sales of whole life products.

The number of Life Planners increased 229, or 4%, from 6,038 as of September 30, 2007 to 6,267 as of September 30, 2008, driven by increases in all countries, including increases of 83 in Taiwan, 54 in Japan, 35 in Argentina. The number of Life Planners in Korea increased by 13 reflective of the continuing competitive market environment. In addition, during 2007 and the first nine months of 2008, 140 Life Planners in Japan were transferred to Gibraltar primarily to support our efforts to expand our bank channel distribution. Factoring in these transfers, the number of Life Planners would have increased 5%, from September 30, 2007 to September 30, 2008.

New annualized premiums, on a constant exchange rate basis, from our Gibraltar Life operation increased $86 million, reflecting strong sales of a new U.S. dollar denominated retirement income product and a new single premium yen denominated endowment product launched in the first and second quarters of 2008, respectively. Higher sales of our U.S. dollar denominated fixed annuity products in both the Life Advisor and bank distribution channels also contributed to the increase in new annualized premiums. The number of Life Advisors increased by 113, from 5,944 as of September 30, 2007 to 6,057 as of September 30, 2008, as we continue to focus on hiring practices to enhance retention and productivity.

Investment Margins and Other Profitability Factors

Many of our insurance products sold in international markets provide for the buildup of cash values for the policyholder at mandated guaranteed interest rates. Japanese authorities regulate interest rates guaranteed in our Japanese insurance contracts. The regulated guaranteed interest rates do not necessarily match the actual returns on the underlying investments. The spread between the actual investment returns and these guaranteed rates of return to the policyholder is an element of the profit or loss that we will experience on these products. With regulatory approval, guaranteed rates may be changed on new business. While these actions enhance our ability to set rates commensurate with available investment returns, the major sources of profitability on our products sold in Japan, other than those sold by Gibraltar Life, are margins on mortality, morbidity and expense charges rather than investment spreads.

We base premiums and cash values in most countries in which we operate on mandated mortality and morbidity tables. Our mortality and morbidity experience in the International Insurance segment on an overall basis in the first nine months of 2008 and the first nine months of 2007 was well within our pricing assumptions and below the guaranteed levels reflected in the premiums we charge.

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International Investments

Operating Results

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

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(in millions)			
Operating results:				
Revenues	$ 157	$ 251	$ 487	$ 597
Expenses	120	137	398	378
Adjusted operating income	37	114	89	219
Realized investment gains (losses), net, and related adjustments(1)	(1)	(1)	2	
Related charges(2)		(1)		(4)
Equity in earnings of operating joint ventures(3)	(7)	(6)	(22)	(22)
Income from continuing operations before income taxes and equity in earnings of operating joint ventures	$ 29	$ 106	$ 69	$ 193

(1) Revenues exclude Realized investment gains (losses), net, and related adjustments. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.
(2) Benefits and expenses exclude related charges which represent the unfavorable (favorable) impact of Realized investment gains (losses), net, on minority interest.
(3) Equity in earnings of operating joint ventures are included in adjusted operating income but excluded from income from continuing operations before income taxes and equity in earnings of operating joint ventures as they are reflected on a U.S. GAAP basis on an after-tax basis as a separate line in our Unaudited Interim Consolidated Statements of Operations.

In 2004, we acquired an 80 percent interest in Hyundai Investment and Securities Co., Ltd., a Korean asset management firm, from an agency of the Korean government. We subsequently renamed the company Prudential Investment & Securities Co., Ltd, or PISC. On January 25, 2008, we acquired the remaining 20 percent for $90 million and PISC is now a wholly owned operation.

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

On July 1, 2008, we acquired a 40 percent interest in GAP Asset Management of Brazil, which we account for under the equity method. GAP Asset Management of Brazil had $2.9 billion in assets under management as of June 30, 2008.

Adjusted Operating Income

2008 to 2007 Three Month Comparison. Adjusted operating income decreased $77 million, from $114 million in the third quarter of 2007 to $37 million in the third quarter of 2008. This decrease reflects the benefit to the prior year quarter of a $37 million gain from the sale of the segment s Oppenheim joint ventures in July 2007 and a $17 million gain from recoveries related to a former investment of the segment s Korean asset management operation. Also contributing to the decrease in adjusted operating income is a lower level of gains on securities relating to exchange memberships of the segment s global commodities group, as the third quarter of 2007 benefited by $22 million, while the third quarter of 2008 benefited by $14 million. The remainder of the decrease in adjusted operating income is attributable to lower results from the segment s Korean asset management operation. The adjusted operating income of our Korean asset management operation includes $5 million in the third quarter of 2008 and $4 million in the third quarter of 2007, respectively, of fee revenue from the Korean government under an agreement entered into in connection with the acquisition of PISC, related to the provision of asset management and brokerage services, which agreement extends until February 27, 2009.

The significant deterioration in financial market conditions that occurred subsequent to September 30, 2008, particularly in Europe and Asia, may result in a decline in our future asset management and transaction based fees, and hence a decrease in the expected future earnings of the segment s asset management businesses. Absent a recovery in financial market conditions prior to December 31, 2008, we would expect to record a goodwill impairment for some or all of the goodwill associated with the segment s asset management businesses in the fourth quarter of 2008. As of September 30, 2008, the carrying value of this goodwill was $131 million. Additionally, these same conditions will require that we review the carrying value of certain equity method investments to determine whether any portion of them will need to be impaired. The aggregate carrying value of these investments was $508 million as of September 30, 2008. Such reviews could lead to an impairment of some portion of the carrying value of these investments in future periods.

2008 to 2007 Nine Month Comparison. Adjusted operating income decreased $130 million, from $219 million in the first nine months of 2007 to $89 million in the first nine months of 2008. This decrease reflects the benefit to the prior year of a $37 million gain from the sale of Oppenheim and a $17 million gain from the recovery of a former investment, as discussed above. The decrease in adjusted operating income also reflects lower results from the segment s asset management businesses, primarily in our Korean operation, as well as lower results from the segment s global commodities group. The decrease in earnings for the global commodities group is driven by a $19 million credit loss reserve related to a brokerage client that was recorded in the first quarter of 2008. Also contributing to lower earnings in the global commodities group is a lower level of gains on securities relating to exchange memberships, which benefited the first nine months of 2007 by $39 million, while benefiting the first nine months of 2008 by $22 million. Results for the first nine months of 2008 and 2007 include fee revenue from the Korean government under the agreement discussed above of $14 million and $13 million, respectively.

Revenues

2008 to 2007 Three Month Comparison. Revenues, as shown in the table above under Operating Results, decreased $94 million, from $251 million in the third quarter of 2007 to $157 million in the third quarter of 2008, primarily reflecting the benefit to the prior year quarter of the gain from the sale of Oppenheim and the gain from the recovery of a former investment as discussed above, as well as lower revenue in the Korean asset management operation.

2008 to 2007 Nine Month Comparison. Revenues decreased $110 million, from $597 million in the first nine months of 2007 to $487 million in the first nine months of 2008, reflecting the benefit to the prior year of the gain from the sale of Oppenheim and the gain from the recovery of a former investment as discussed above, as well as lower revenues from the segment s asset management businesses, primarily in our Korean operation. Partially offsetting this decrease were higher revenues in our global commodities group due to increased sales and trading activity, which more than offset the lower benefit in the current year from securities relating to exchange memberships.

Expenses

2008 to 2007 Three Month Comparison. Expenses, as shown in the table above under Operating Results, decreased $17 million, from $137 million in the third quarter of 2007 to $120 million in the third quarter of 2008, primarily reflecting lower expenses corresponding with the lower level of revenues generated by the Korean asset management operation.

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2008 to 2007 Nine Month Comparison. Expenses increased $20 million, from $378 million in the first nine months of 2007 to $398 million in the first nine months of 2008, primarily due to the $19 million credit loss in our global commodities group and higher expenses corresponding with the higher level of revenues generated by the sales and trading activity of our global commodities group. Partially offsetting these items were lower expenses in the segment s asset management businesses corresponding with the lower level of revenues generated by these businesses.

Corporate and Other

Corporate and Other includes corporate operations, after allocations to our business segments, and our real estate and relocation services business.

Corporate operations consist primarily of: (1) corporate-level income and expenses, after allocations to any of our business segments, including income and expense from our qualified pension and other employee benefit plans and investment returns on capital that is not deployed in any of our segments; (2) returns from investments that we do not allocate to any of our business segments, including debt-financed investment portfolios, as well as tax credit investments and other tax enhanced investments financed by our business segments; (3) capital debt that is used or will be used to meet the capital requirements of Prudential Financial and the related interest expense; and (4) businesses that we have placed in wind-down status but have not divested as well as the impact of transactions with other segments.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Operating results:				
Corporate Operations(1)	$ (17)	$ (33)	$ (31)	$ (47)
Real Estate and Relocation Services	(4)	21	(30)	36
Adjusted operating income	(21)	(12)	(61)	(11)
Realized investment gains (losses), net, and related adjustments(2)	20	(163)	11	(73)
Investment gains on trading account assets supporting insurance liabilities(1)(3)				2
Divested businesses(4)	(3)	(27)	(128)	19
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (4)	$ (202)	$ (178)	$ (63)

(1) Includes consolidating adjustments.
(2) Revenues exclude Realized investment gains (losses), net, and related adjustments. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses. The related charges represent the impact of Realized investment gains (losses), net, on the amortization of unearned revenue reserves. See Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses.
(3) Revenues exclude net investment gains and losses on trading account assets supporting insurance liabilities. See Trading Account Assets Supporting Insurance Liabilities.
(4) See Divested Businesses.

2008 to 2007 Three Month Comparison. Adjusted operating income decreased $9 million, from a loss of $12 million in the third quarter of 2007 to a loss of $21 million in the third quarter of 2008. Adjusted operating income of our real estate and relocation services business decreased $25 million, from income of $21 million in the third quarter of 2007 to a loss of $4 million in the third quarter of 2008. Less favorable residential real estate market conditions resulted in lower royalty fees, increased bad debt reserves and lower relocation revenue from real estate referral fees and home sale transactions. Certain of our clients utilize a fixed fee home sale program under which we assume the benefits and burdens of ownership with respect to a relocating employee's home that is purchased by us, including carrying costs and any loss on sale. As of September 30, 2008, we held in unsold inventory homes with a net value of $81 million under this program.

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We have evaluated the goodwill of our Real Estate and Relocation Services business, which, as of September 30, 2008 was $118 million, for potential impairment. As of September 30, 2008, we determined that a goodwill impairment did not exist, as the fair value of the business, which was calculated by applying a discounted cash flow analysis to its expected future earnings, was greater than its carrying value. Further or continued deterioration of the U.S. housing markets could result in an impairment of some or all of the goodwill associated with this business in future periods.

Adjusted operating income from corporate operations increased $16 million, from a loss of $33 million in the third quarter of 2007 to a loss of $17 million in the third quarter of 2008. Corporate operations benefited from a decline in our deferred compensation liabilities and other compensation related items in the third quarter of 2008 versus the prior year quarter, as well as lower costs associated with philanthropic activities and other retained corporate expenses. These lower costs were partially offset by increased costs related to our retained obligations relating to policyholders with whom we had previously agreed to provide insurance for reduced or no premium in accordance with contractual settlements related to prior individual life sales practices remediation. Both our deferred compensation liabilities and our retained obligations to certain policyholders are impacted by financial market conditions. Corporate operations investment income, net of interest expense, decreased, primarily reflecting the impact of increased borrowings, which includes the issuance in 2008 of $1.5 billion of junior subordinated notes, as well as lower yields on invested assets.

The proceeds from our $2 billion December 2006 convertible debt issuance were used to fund an investment portfolio of fixed income securities until December 2007, which also benefited results for the prior year quarter. These proceeds, as well as the proceeds from our $3 billion December 2007 convertible debt issuance, are now invested primarily in short-term investments or are used to support operating needs in lieu of other short-term borrowings.

Corporate operations includes income from our qualified pension plan of $73 million in the third quarter of 2008, a decrease of $19 million from $92 million in the third quarter of 2007. The decrease primarily reflects the impact of the transfer in April 2007 of $1 billion in plan assets within the qualified pension plan under Section 420 of the Internal Revenue Code from assets supporting pension benefits to assets supporting retiree medical benefits. As a result of the transfer, the decline in income from our qualified pension plan was offset by a corresponding decline in other postretirement benefit expenses.

2008 to 2007 Nine Month Comparison. Adjusted operating income decreased $50 million, from a loss of $11 million in the first nine months of 2007 to a loss of $61 million in the first nine months of 2008. The greater loss in the first nine months of 2008 is primarily due to less favorable results in our real estate and relocation services business. Adjusted operating income of our real estate and relocation services business decreased $66 million, from income of $36 million in the first nine months of 2007 to a loss of $30 million in the first nine months of 2008. Less favorable residential real estate market conditions resulted in lower royalty fees, increased bad debt reserves and lower relocation revenue from real estate referral fees and homesale transactions.

Adjusted operating income from corporate operations increased $16 million, from a loss of $47 million for the first nine months of 2007 to a loss of $31 million for the first nine months of 2008. Corporate operations benefited from a decline in our deferred compensation liabilities and other compensation related items in the first nine months of 2008 versus the prior year, as well as lower costs associated with philanthropic activities and other retained corporate expenses. This benefit was partially offset by increased costs related to our retained obligations relating to policyholders with whom we had previously agreed to provide insurance for reduced or no premium in accordance with contractual settlements related to prior individual life sales practices remediation. Both our deferred compensation liabilities and our retained obligations to certain policyholders are impacted by financial market conditions. Corporate operations investment income, net of interest expense, decreased, primarily reflecting the impact of increased borrowings, which includes the issuance in 2008 of $1.5 billion of junior subordinated notes, as well as lower earnings from the investment of proceeds from our convertible debt issues, lower yields on invested assets and the impact of less favorable pre-tax income from our tax credit investments.

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The $2 billion November 2005 convertible debt securities, for which investment of proceeds in fixed income securities contributed to results during the first nine months of 2007, were repaid in May 2007. The proceeds from our $2 billion December 2006 convertible debt issuance were used to fund an investment portfolio of fixed income securities until December 2007, which also benefited results for the first nine months of the prior year. These proceeds, as well as the proceeds from our $3 billion December 2007 convertible debt issuance, are now invested primarily in short-term investments or are used to support operating needs in lieu of other short-term borrowings.

Corporate operations includes income from our qualified pension plan of $217 million in the first nine months of 2008, a decrease of $57 million from $274 million in first nine months of 2007. The decrease primarily reflects the impact of the transfer in April 2007 of $1 billion in plan assets within the qualified pension plan under Section 420 of the Internal Revenue Code from assets supporting pension benefits to assets supporting retiree medical benefits. As a result of the transfer, the decline in income from our qualified pension plan was offset by a corresponding decline in other postretirement benefit expenses.

Results of Operations of Closed Block Business

We established the Closed Block Business effective as of the date of demutualization. The Closed Block Business includes our in force traditional domestic participating life insurance and annuity products and assets that are used for the payment of benefits and policyholder dividends on these policies, as well as other assets and equity and related liabilities that support these policies. We no longer offer these traditional domestic participating policies. See Overview Closed Block Business for additional details.

At the end of each year, the Board of Directors of Prudential Insurance determines the dividends payable on participating policies for the following year based on the experience of the Closed Block, including investment income, net realized and unrealized investment gains, mortality experience and other factors. Although Closed Block experience for dividend action decisions is based upon statutory results, at the time the Closed Block was established, we developed, as required by U.S. GAAP, an actuarial calculation of the timing of the maximum future earnings from the policies included in the Closed Block. If actual cumulative earnings in any given period are greater than the cumulative earnings we expected, we will record this excess as a policyholder dividend obligation. We will subsequently pay this excess to Closed Block policyholders as an additional dividend unless it is otherwise offset by future Closed Block performance that is less favorable than we originally expected. The policyholder dividends we charge to expense within the Closed Block Business will include any change in policyholder dividend obligations that we recognize for the excess of actual cumulative earnings in any given period over the cumulative earnings we expected in addition to the actual policyholder dividends declared by the Board of Directors of Prudential Insurance.

As of September 30, 2008, the excess of actual cumulative earnings over the expected cumulative earnings was $175 million. Actual cumulative earnings, as required by U.S. GAAP, reflect the recognition of realized investment gains and losses in the current period, as well as changes in assets and related liabilities that support the Closed Block policies. However, due to the accumulation of net unrealized investment losses that have arisen subsequent to the establishment of the Closed Block, the policyholder dividend obligation balance as of September 30, 2008 is zero.

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Operating Results

Management does not consider adjusted operating income to assess the operating performance of the Closed Block Business. Consequently, results of the Closed Block Business for all periods are presented only in accordance with U.S. GAAP. The following table sets forth the Closed Block Business U.S. GAAP results for the periods indicated.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
U.S. GAAP results:				
Revenues	$ 1,778	$ 1,886	$ 4,945	$ 5,770
Benefits and expenses	1,891	1,878	5,046	5,610
Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures	$ (113)	$ 8	$ (101)	$ 160

Income (loss) from Continuing Operations Before Income Taxes and Equity in Earnings of Operating Joint Ventures

2008 to 2007 Three Month Comparison. Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures decreased $121 million, from income of $8 million in the third quarter of 2007 to a loss of $113 million in the third quarter of 2008. Results for the third quarter of 2008 reflect a decrease of $81 million in net investment income, net of interest expense, primarily related to lower yields and a decrease in income on joint ventures and limited partnership investments accounted for under the equity method. In addition, dividends paid and accrued to policyholders increased, primarily due to an increase in the 2008 dividend scale. These decreases to income were partially offset by an increase of $6 million in realized investment gains, from $113 million in the third quarter of 2007 to $119 million in the third quarter of 2008. For a discussion of Closed Block Business realized investment gains (losses), net, see Realized Investment Gains and Losses and General Account Investments Realized Investment Gains and Losses. The impact of these items contributed to actual cumulative earnings which, when compared to the expected cumulative earnings, resulted in a decrease in the cumulative earnings policyholder dividend obligation expense of $38 million from the third quarter of 2007, compared to the third quarter of 2008. As noted above, as of September 30, 2008, the excess of actual cumulative earnings over the expected cumulative earnings was $175 million. Actual cumulative earnings less than expected cumulative earnings will result in volatility in the Closed Block Business earnings in future periods.

2008 to 2007 Nine Month Comparison. Income (loss) from continuing operations before income taxes and equity in earnings of operating joint ventures decreased $261 million, from income of $160 million in the first nine months of 2007 to a loss of $101 million in the first nine months of 2008. Results for the first nine months of 2008 include net realized investment losses of $339 million as compared to gains of $312 million in the first nine months of 2007, a decrease of $651 million. For a discussion of Closed Block Business realized investment gains (losses), net, see Realized Investment Gains and General Account Investments Realized Investment Gains. Net investment income, net of interest expense, decreased $181 million, primarily related to lower yields and a decrease in income on joint ventures and limited partnership investments accounted for under the equity method. In addition, dividends paid and accrued to policyholders increased, primarily due to an increase in the 2008 dividend scale. The impact of these items contributed to actual cumulative earnings which, when compared to the expected cumulative earnings, resulted in a decrease in the cumulative earnings policyholder dividend obligation expense of $754 million from the first nine months of 2007, compared to the first nine months of 2008.

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Revenues

2008 to 2007 Three Month Comparison. Revenues, as shown in the table above under "Operating Results," decreased $108 million, from $1.886 billion in the third quarter of 2007 to $1.778 billion in the third quarter of 2008, principally driven by the decrease in net investment income, as discussed above.

2008 to 2007 Nine Month Comparison. Revenues, as shown in the table above under "Operating Results," decreased $825 million, from $5.770 billion in the first nine months of 2007 to $4.945 billion in the first nine months of 2008, principally driven by the decrease in net realized investment gains and net investment income, as discussed above.

Benefits and Expenses

2008 to 2007 Three Month Comparison. Benefits and expenses, as shown in the table above under "Operating Results," increased $13 million, from $1.878 billion in the third quarter of 2007 to $1.891 billion in the third quarter of 2008. This increase included an $18 million increase in dividends to policyholders reflecting an increase in dividends paid and accrued to policyholders of $56 million, primarily due to an increase in the 2008 dividend scale, partially offset by a decrease in the cumulative earnings policyholder dividend obligation expense of $38 million.

2008 to 2007 Nine Month Comparison. Benefits and expenses, as shown in the table above under "Operating Results," decreased $564 million, from $5.610 billion in the first nine months of 2007 to $5.046 billion in the first nine months of 2008. This decrease included a $584 million decline in dividends to policyholders reflecting a decrease in the cumulative earnings policyholder dividend obligation expense of $754 million, partially offset by an increase in dividends paid and accrued to policyholders, primarily due to an increase in the 2008 dividend scale and the aging of the policies.

Income Taxes

Our income tax provision amounted to an income tax benefit of $143 million in the third quarter of 2008 compared to income tax expense of $316 million in the third quarter of 2007. Our income tax provision amounted to an income tax benefit of $48 million in the first nine months of 2008 compared to income tax expense of $1.063 billion in the first nine months of 2007, representing 10% of income from continuing operations before income taxes and equity in earnings of operating joint ventures for the first nine months of 2008 and 29% for the first nine months of 2007.

We have utilized a discrete effective tax rate method, as allowed by Accounting Principles Board Opinion No. 28 and Financial Accounting Standards Board Interpretation No. 18, to calculate taxes for the third quarter and first nine months of 2008. We believe that, at this time, the use of this discrete method is more appropriate than the full year effective tax rate method applied in prior quarters. As a result of the extreme volatility in the U.S. markets and its impact on our ability to forecast pre-tax earnings, the 2008 effective tax rate estimate is unreliable.

The decline in income tax expense primarily reflects the decline in pre-tax income from continuing operations before income taxes and equity in earnings of operating joint ventures for both the third quarter and the first nine months of 2008.

The dividends received deduction, or DRD, reduces the amount of dividend income subject to U.S. tax and in recent years is the primary component of the difference between our effective tax rate and the federal statutory tax rate of 35%. The DRD for the current period was estimated using information from 2007, current year results, and was adjusted to take into account the current year s equity market performance. The actual current year DRD can vary from the estimate based on factors such as, but not limited to, changes in the amount of dividends

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received that are eligible for the DRD, changes in the amount of distributions received from mutual fund investments, changes in the account balances of variable life and annuity contracts, and our taxable income before the DRD.

In August 2007, the Internal Revenue Service, or IRS, released Revenue Ruling 2007-54, which included, among other items, guidance on the methodology to be followed in calculating the dividends received deduction related to variable life insurance and annuity contracts. In September 2007, the IRS released Revenue Ruling 2007-61. Revenue Ruling 2007-61 suspends Revenue Ruling 2007-54 and informs taxpayers that the U.S. Treasury Department and the IRS intend to address through new regulations the issues considered in Revenue Ruling 2007-54, including the methodology to be followed in determining the dividends received deduction related to variable life insurance and annuity contracts. These activities had no impact on our 2007 or 2008 results.

In December 2006, the IRS completed all fieldwork with regards to its examination of the consolidated federal income tax returns for tax years 2002 and 2003. The final report was initially submitted to the Joint Committee on Taxation for their review in April 2007. The final report was resubmitted in March 2008 and again in April 2008. The Joint Committee returned the report to the IRS for additional review of the industry issue regarding the methodology for calculating the DRD related to variable life insurance and annuity contracts. The IRS completed its review of the issue and proposed an adjustment with respect to the calculation of the DRD. In order to expedite a pending income tax refund related to the 2002 and 2003 years, we have agreed to such adjustment. Nevertheless, we believe that our return position is technically correct. Therefore, we intend to file a protective refund claim to recover the taxes associated with the agreed upon adjustment and to pursue such other actions as appropriate. The report, with the adjustment, was submitted to the Joint Committee on Taxation in October 2008. These activities had no impact on our 2007 or 2008 results.

Discontinued Operations

Included within net income are the results of businesses which are reflected as discontinued operations under U.S. GAAP. A summary of the results of discontinued operations by business is as follows for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Equity sales, trading and research operations	$ 1	$ (1)	$ (1)	$ (104)
Real estate investments sold or held for sale	3		4	62
Canadian intermediate weekly premium and individual health operations		(1)		(1)
International securities operations		(2)	(2)	(1)
Healthcare operations	3		3	5
Income (loss) from discontinued operations before income taxes	7	(4)	4	(39)
Income tax expense (benefit)	2		1	(45)
Income (loss) from discontinued operations, net of taxes	$ 5	$ (4)	$ 3	$ 6

The nine months ended September 30, 2007 includes a $26 million tax benefit associated with a discontinued international business. Real estate investments sold or held for sale reflects the income from discontinued real estate investments.

For additional information regarding discontinued operations, see Note 3 of the Unaudited Interim Consolidated Financial Statements.

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Divested Businesses

Our income from continuing operations includes results from several businesses that have been or will be sold or exited that do not qualify for discontinued operations accounting treatment under U.S. GAAP. The results of these divested businesses are reflected in our Corporate and Other operations, but excluded from adjusted operating income. A summary of the results of the divested businesses that have been excluded from adjusted operating income is as follows for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
	(in millions)			
Commercial mortgage securitization operations	$ (6)	$ (42)	$ (129)	$ (10)
Exchange shares previously held by Prudential Equity Group	2	11	(5)	5
Prudential Securities capital markets	(2)	3	2	12
Prudential Home Mortgage Company	(1)	1	(1)	8
Property and casualty insurance	4		5	4
Total divested businesses excluded from adjusted operating income	$ (3)	$ (27)	$ (128)	$ 19

In 2008, we classified our commercial mortgage securitization operations as a divested business, reflecting our decision to exit this business. As a result of this decision, these operations, which involved the origination and purchase of commercial mortgage loans that we in turn would aggregate and sell into commercial mortgage-backed securitization transactions, together with related hedging activities, previously reported within the Asset Management segment, have been classified within divested businesses and are reflected in our Corporate and Other operations. Accordingly, these results are excluded from adjusted operating income, with prior period results being adjusted to reflect such reclassification. We retained and continue the remainder of our commercial mortgage origination, servicing and other commercial mortgage related activities, which remain a part of our Asset Management segment. We do not anticipate incurring material additional costs (including employee severance, retention and other employee related costs) in connection with this decision. As of September 30, 2008, our commercial mortgage securitization operations held loans with a principal balance of $286 million. Net of the derivatives purchased as hedges, about $144 million of these positions continue to be subject to changes in credit spreads. This represents a decrease from about $750 million as of December 31, 2007. The losses of $6 million in the third quarter of 2008 and $129 million in the first nine months of 2008 primarily reflect net realized and unrealized losses on the loans, bonds and hedges from instability in the commercial mortgage-backed securities market during 2008.

Trading Account Assets Supporting Insurance Liabilities

Trading account assets supporting insurance liabilities, at fair value include assets that support certain products included in the Retirement and International Insurance segments, which are experience-rated, meaning that the investment results associated with these products will ultimately accrue to contractholders. 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.

Results for the three months ended September 30, 2008 and 2007 include the recognition of $534 million of investment losses and $36 million of investment gains, respectively, and for the nine months ended September 30, 2008 and 2007 include the recognition of $919 million of investment losses and $10 million of investment gains, respectively, on Trading account assets supporting insurance liabilities, at fair value. These gains and losses primarily represent interest-rate related mark-to-market adjustments on fixed maturity securities. Consistent with our treatment of Realized investment gains (losses), net, these gains and losses, which will

ultimately accrue to the contractholders, are excluded from adjusted operating income. In addition, results for the three months ended September 30, 2008 and 2007 include decreases of $388 million and increases of $6 million, respectively, and for the nine months ended September 30, 2008 and 2007 include decreases of $682 million and $4 million, respectively, in contractholder liabilities due to asset value changes in the pool of investments that support these experience-rated contracts. These liability changes are reflected in Interest credited to policyholders account balances and are also excluded from adjusted operating income. As prescribed by U.S. GAAP, changes in the fair value of commercial loans held in our general account, other than when associated with impairments, are not recognized in income in the current period, while the impact of these changes in commercial loan value are reflected as a change in the liability to contractholders in the current period. Included in the amounts above related to the change in the liability to contractholders are decreases related to commercial loans of $59 million and increases related to commercial loans of $23 million for the three months ended September 30, 2008 and 2007, respectively, and decreases related to commercial loans of $76 million and increases related to commercial loans of $8 million for the nine months ended September 30, 2008 and 2007, respectively.

Valuation of Assets and Liabilities

Fair Value of Assets and Liabilities

As discussed in Notes 2 and 10 to the Unaudited Interim Consolidated Financial Statements, we adopted SFAS No. 157 effective January 1, 2008. SFAS No. 157 establishes a framework for measuring fair value that includes a hierarchy used to classify the inputs used in measuring fair value. The hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three levels. The level in the fair value hierarchy within which the fair value measurement falls is determined based on the lowest level input that is significant to the fair value measurement. The levels of the fair value hierarchy are as follows:

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

Level 2 Fair value is based on significant inputs, other than Level 1 inputs, that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities and other market observable inputs. Our Level 2 assets and liabilities include: fixed maturities (corporate public and private bonds, most government securities, certain asset- and mortgage-backed securities, etc.), certain equity securities and commercial loans, short-term investments and certain cash equivalents (primarily commercial paper) and certain over-the-counter derivatives. Valuations are generally obtained from third party pricing services for identical or comparable assets or liabilities, non-binding broker quotes (when pricing service information is not available) or through the use of valuation methodologies using observable market inputs. Prices from services are validated through comparison to internal pricing information and economic indicators as well as backtesting to trade data or other data to confirm that the pricing service s significant inputs are observable. Broker quotes are non-binding, reviewed for reasonableness, based on our understanding of the market, and generally considered Level 3. Under certain conditions, we may conclude the prices received from independent third party pricing services or brokers are not reasonable or reflective of market activity. In those instances, we may choose to over-ride the third-party pricing information or quotes received

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and apply internally developed values to the related assets or liabilities. In such cases, the valuations are generally classified as Level 3. As of September 30, 2008 such over-rides on a net basis resulted in lower pricing levels being used and in aggregate were not materially different from the prices received from the independent pricing services.

Level 3 Fair value is based on at least one or more significant unobservable inputs for the asset or liability. These inputs reflect our assumptions about the assumptions market participants would use in pricing the asset or liability. Our Level 3 assets and liabilities primarily include: certain private fixed maturities and equity securities, certain manually priced public equity securities and fixed maturities, including certain asset-backed securities and securities where we chose to over-ride pricing information received from third parties as discussed above, certain highly structured over-the-counter derivative contracts, certain commercial loans, certain consolidated real estate funds for which we are the general partner, and embedded derivatives resulting from certain products with guaranteed benefits. Prices are determined using valuation methodologies such as option pricing models, discounted cash flow models and other similar techniques. Prices may also be based upon non-binding quotes from brokers or other market-makers that are reviewed for reasonableness, based on our understanding of the market.

The tables below present the balances of assets and liabilities measured at fair value on a recurring basis, as of September 30, 2008, for Consolidated, Financial Services Businesses and Closed Block Business.

	Level 1	Level 2	Consolidated Level 3(1) (in millions)	Netting(2)	Total
Fixed maturities, available for sale	$ 5	$ 153,399	$ 2,200	$	$ 155,604
Trading account assets supporting insurance liabilities	1,093	13,169	130		14,392
Other trading account assets	519	4,315	802	(2,268)	3,368
Equity securities, available for sale	4,905	2,234	250		7,389
Commercial loans		511	63		574
Other long-term investments	550	30	991		1,571
Short term investments	3,752	2,711			6,463
Cash and cash equivalents	1,241	7,455			8,696
Other assets	52	3,596			3,648
Sub-total excluding separate account assets	12,117	187,420	4,436	(2,268)	201,705
Separate account assets(3)	73,963	68,310	22,875		165,148
Total assets	$ 86,080	$ 255,730	$ 27,311	$ (2,268)	$ 366,853
Future policy benefits			785		785
Long-term debt			280		280
Other liabilities	65	2,383	158	(2,079)	527
Total liabilities	$ 65	$ 2,383	$ 1,223	$ (2,079)	$ 1,592

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	Financial Services Businesses				
	Level 1	Level 2	Level 3(1) (in millions)	Netting(2)	Total
Fixed maturities, available for sale	$ 5	$ 113,071	$ 1,550	$	$ 114,626
Trading account assets supporting insurance liabilities	1,093	13,169	130		14,392
Other trading account assets	519	4,200	789	(2,268)	3,240
Equity securities, available for sale	1,966	2,071	221		4,258
Commercial loans		511	63		574
Other long-term investments	550	30	991		1,571
Short term investments	3,031	2,169			5,200
Cash and cash equivalents	1,068	6,184			7,252
Other assets	52	3,596			3,648
Sub-total excluding separate account assets	8,284	145,001	3,744	(2,268)	154,761
Separate account assets(3)	73,963	68,310	22,875		165,148
Total assets	$ 82,247	$ 213,311	$ 26,619	$ (2,268)	$ 319,909
Future policy benefits			785		785
Long-term debt			280		280
Other liabilities	4	2,337	151	(2,079)	413
Total liabilities	$ 4	$ 2,337	$ 1,216	$ (2,079)	$ 1,478

	Closed Block Business				
	Level 1	Level 2	Level 3(1) (in millions)	Netting(2)	Total
Fixed maturities, available for sale	$	$ 40,328	$ 650	$	$ 40,978
Trading account assets supporting insurance liabilities					
Other trading account assets		115	13		128
Equity securities, available for sale	2,939	163	29		3,131
Commercial loans					
Other long-term investments					
Short term investments	721	542			1,263
Cash and cash equivalents	173	1,271			1,444
Other assets					
Sub-total excluding separate account assets	3,833	42,419	692		46,944
Separate account assets(3)					
Total assets	$ 3,833	$ 42,419	$ 692	$	$ 46,944
Future policy benefits					
Long-term debt					
Other liabilities	61	46	7		114
Total liabilities	$ 61	$ 46	$ 7	$	$ 114

(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 2% 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 Unaudited Interim Consolidated Statement of Financial Position.

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For additional information regarding the balances of assets and liabilities measured at fair value by hierarchy level see Note 10 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 can be significantly impacted by a decrease in market activity. 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 Trading Account Assets Supporting Insurance Liabilities as well as 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 securities, government securities and various structured securities, including asset-backed and mortgage-backed 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 pricing services for each security, but ultimately utilize 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 or comparison of all significant inputs used by the pricing service to our observations of those inputs in the market. 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 reasonable 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 utilize 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 September 30, 2008, such over-rides in aggregate, 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 is 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. Despite the dislocated markets and low levels of liquidity at the end of the third quarter of 2008, our internally developed valuations of current exit value, which reflect our estimates of liquidity and non performance risks, compared with pricing received from the independent pricing services did not produce significantly material differences for the vast majority 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, including those that are distressed, 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 that the funds trade at 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 distressed private fixed maturities priced internally based on observable and unobservable inputs. As of September 30, 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 include: issue specific credit adjustments, material non-public financial information, management judgment, estimation of future earnings and cashflows, default rate assumptions, liquidity assumptions and non-binding quotes from market makers. These inputs are usually considered unobservable, as not all market participants will have access to this data. As of September 30, 2008 we classified approximately $100 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 are valued using information from independent pricing services, and are included in Level 2 based on the process described above. Net realized and unrealized losses for Level 3 Available for Sale fixed maturities totaled $39 million and $88 million, respectively, for the third quarter of 2008.

Within fixed maturities, we hold asset-backed securities collateralized by sub-prime mortgages, as discussed in greater detail in Realized Investment Gains and Losses and General Account Investments General Account Investments Fixed Maturity Securities . While the fair value of these investments, as well as others within our portfolio of fixed maturities, has declined in recent quarters 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 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 is other-than-temporary, the carrying value of the security is impaired to its fair value, with a corresponding charge to 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 three and nine months ended September 30, 2008 and 2007.

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.

Valuation of Commercial 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 loans held for sale originated beginning January 1, 2008. In addition, we elected the fair value option for fixed rate commercial 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 loans held for investment that was not substantially offset by the associated interest rate derivative hedges during the quarter ended March 31, 2008. Therefore, we decided to no longer elect the fair value option on loans held for investment that were originated after March 31, 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 and accounted for using the lower of cost or market approach is determined utilizing pricing indicators from the whole loan market, which we consider our principal market for these loans. We have evaluated the valuation inputs used for these assets, and deemed that the primary pricing inputs are Level 3 in our fair value hierarchy.

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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 is determined by reference to the master 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 fair value. Since the NAV at which these funds trade can be observed by redemption and subscription transactions with third parties, the fair values of feeder fund investments in master funds have been reflected within Level 2 in our fair value hierarchy.

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 September 30, 2008 totaled approximately $985 million. 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 minority interest liability, which liability is not considered to be fair value and therefore, not included in fair value reporting above.

Valuation of Derivative Instruments

Derivatives are recorded 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 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 nonperformance risk when determining the fair value of our derivative assets and liabilities. We believe this credit spread is an appropriate estimate of the nonperformance risk for derivative related assets and liabilities between highly rated institutions that are subject to periodic collateral posting.

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.

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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 forward rate agreements, interest rate and cross currency swaps, commodity swaps, commodity forward contracts, single name credit default swaps and to be announced forward contracts on highly rated mortgage-backed securities issued by U.S. government sponsored entities are determined using discounted cash flow models. The fair values of European style option contracts are determined using Black-Scholes option pricing models. These models key assumptions include the contractual terms of the respective contract, along with significant observable inputs, including interest rates, currency rates, credit spreads, yield curves, equity prices, index dividend yields, and volatility.

Most OTC derivative contracts have bid and ask prices that can be readily observed in the market place. 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 $700 million and $150 million, respectively, without giving consideration to the impact of netting, as of September 30, 2008.

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: 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 cash flow hedges and effective 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 Fixed Maturity Securities and Unrealized Gains and Losses by Industry Category. 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 declined during the third quarter of 2008 due to credit spread widening in the applicable financial markets, and remains in a loss position on a cumulative basis as a result of the recent stress 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). 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 payments to customers less the present value of assessed rider fees attributable to the embedded derivative feature. The expected cash flows are discounted using LIBOR interest rates, which are commonly viewed as being consistent with our claims paying ratings of AA quality. Since insurance liabilities are senior to debt, we believe that reflecting our claims-paying ratings in the valuation of the liability appropriately takes into consideration our own risk of nonperformance. Since there is no observable active market for the transfer of these obligations, the valuations are calculated using internally developed models. Significant inputs to these models include capital market assumptions, such as interest rate, equity market, and implied volatility assumptions, as well as various policyholder behavior assumptions that are actuarially determined, including lapse rates, benefit utilization rates, mortality rates and withdrawal rates. These assumptions are reviewed at least annually, and updated based upon historical experience and give consideration to any observable market data, including market transactions such as acquisitions and reinsurance transactions. Since many of the assumptions utilized 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 an increase in the total liability of $458 million for the three months ended September 30, 2008 and an increase in the total liability of $617 million for the nine months ended September 30, 2008. This change was significantly offset by changes in value of related hedging instruments as described in more detail under Results of Operations for Financial Services Businesses by Segment Insurance Division Individual Annuities.

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 Fixed Maturities . 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 Derivatives.

Valuation of Other Trading Account Assets

Other trading account assets 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 Maturities , Valuation of Equity Securities and Valuation of Derivative Instruments.

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.

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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 loans, fair value changes on commercial mortgage operations loans, fair value changes on embedded derivatives and derivatives that do not qualify for hedge accounting treatment, except 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: the extent and duration of the decline in value; the reasons for the decline (credit event, currency, or interest-rate related, including spread widening); our ability and intent to hold our investment for a period of time to allow for a recovery of value; and the financial condition of and near-term prospects of the issuer. When we determine that there is an other-than-temporary impairment, we write down the value of the security to its fair value, with a corresponding charge recorded in Realized investment gains (losses), net. 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 nine months ended September 30, 2008 resulted from broad market concerns over the sub-prime mortgage market, and liquidity concerns.

In addition, for our impairment review of asset-backed securities with a credit rating below AA, we forecast the prospective future cash flows of the security, representing our best estimate of current information and events that a market participant would use in determining the current fair value of the security, and determine if the present value of those cash flows, discounted using the effective yield of the most recent interest accrual rate, has decreased from the previous reporting period. When a decrease from the prior reporting period has occurred and the security s fair value is less than its carrying value, an other-than-temporary impairment is recognized by writing the security down to fair value.

Given current market conditions and liquidity concerns, 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 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. 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. We may realize additional credit and interest rate related losses through sales of investments pursuant to our credit risk and portfolio management objectives. Other-than-temporary impairments, interest rate related losses and credit 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

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measurement date of the impairment. Accordingly, the discount (or reduced premium) based on the new cost basis is accreted into net investment income, and included in adjusted operating income in future periods based upon the amount and timing of expected future cash flows of the security, if the recoverable value of the investment based upon those cash flows is greater than the carrying value of the investment after the impairment.

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 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 nine months ended September 30, 2008 and 2007, respectively, and gross realized investment gains and losses on fixed maturity securities by segment for the three and nine months ended September 30, 2008 and 2007, 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 9 to the Unaudited Interim Consolidated Financial Statements.

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	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(in millions)			
Realized investment gains (losses), net:				
Financial Services Businesses	$ (392)	$ (197)	$ (1,744)	$ 141
Closed Block Business	119	113	(339)	312
Consolidated realized investment gains (losses), net	$ (273)	$ (84)	$ (2,083)	$ 453
Financial Services Businesses:				
Realized investment gains (losses), net				
Fixed maturity securities(1)	$ (378)	$ (88)	$ (1,266)	$ (48)
Equity securities	(103)	118	(256)	324
Derivative instruments(2)	114	(264)	(129)	(228)
Other	(25)	37	(93)	93
Total	(392)	(197)	(1,744)	141
Related adjustments(3)	(172)	19	(12)	(131)
Realized investment gains (losses), net, and related adjustments	$ (564)	$ (178)	$ (1,756)	10
Related charges(4)	$ 17	$ (2)	$ 45	$ (15)
Closed Block Business:				
Realized investment gains (losses), net				
Fixed maturity securities(1)	$ (54)	$ (22)	$ (269)	$ 66
Equity securities	(46)	65	(252)	303
Derivative instruments	235	69	207	(59)
Other	(16)	1	(25)	2
Total	$ 119	$ 113	$ (339)	$ 312
Realized investment gains (losses) by segment Fixed Maturity Securities				
Financial Services Businesses:				
Gross realized investment gains:				
Individual Life	$ 2	$ 2	$ 7	$ 6
Individual Annuities	8	6	26	19
Group Insurance	2	5	11	23
Asset Management				
Financial Advisory				
Retirement	21	17	60	56
International Insurance	29	37	109	86
International Investments				
Corporate and Other Operations		5	7	9
Total	62	72	220	199
Gross realized investment losses:				
Individual Life	(53)	(10)	(128)	(17)
Individual Annuities	(49)	(10)	(129)	(35)
Group Insurance	(37)	(26)	(240)	(28)
Asset Management	(1)	(14)	(22)	(14)
Financial Advisory				
Retirement	(246)	(55)	(618)	(84)
International Insurance	(38)	(28)	(241)	(39)

International Investments				(1)
Corporate and Other Operations	(16)	(17)	(108)	(29)
Total	(440)	(160)	(1,486)	(247)
Realized investment gains (losses), net Financial Services Businesses	$ (378)	$ (88)	$ (1,266)	$ (48)
Closed Block Business:				
Gross realized investment gains	$ 129	$ 90	$ 462	$ 314
Gross realized investment losses	(183)	(112)	(731)	(248)
Realized investment gains (losses), net Closed Block Business	$ (54)	$ (22)	$ (269)	$ 66

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(1) The Financial Services Businesses include $91 million and $756 million in the three and nine months ended September 30, 2008, respectively, and $11 million in the three months ended September 30, 2007, related to other-than-temporary impairments of asset-backed securities collateralized by sub-prime mortgages. The Closed Block Business includes $39 million and $318 million in the three and nine months ended September 30, 2008, respectively, and $8 million in the three months ended September 30, 2007, related to other-than-temporary impairments of asset-backed securities collateralized by sub-prime mortgages. The three months ended September 30, 2007 also includes losses of $67 million for the Financial Services Businesses and $3 million for the Closed Block Business relating to sales of asset-backed securities collateralized by sub-prime mortgages.

(2) The Financial Services Businesses include $132 million and $318 million of losses in the three and nine months ended September 30, 2008, respectively, and $103 million and $92 million of losses in the three and nine months ended September 30, 2007, 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 experienced during the third quarter of 2008. See Note 9 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 9 to the Unaudited Interim Consolidated Financial Statements.

2008 to 2007 Three Month Comparison

Financial Services Businesses

The Financial Services Businesses net realized investment losses in the third quarter of 2008 were $392 million, compared to net realized investment losses of $197 million in the third quarter of 2007. Net realized losses on fixed maturity securities were $378 million in the third quarter of 2008, compared to net losses of $88 million in the third quarter of 2007, as set forth in the following table:

	Three Months Ended September 30,	
	2008	**2007**
	(in millions)	
Realized investment gains (losses) Fixed Maturity Securities Financial Services Businesses		
Gross realized investment gains:		
Gross gains on sales and maturities	$ 51	$ 66
Private bond prepayment premiums	11	6
Total	62	72
Gross realized investment losses:		
Gross losses on sales and maturities(1)	(95)	(127)
Other-than-temporary impairments	(333)	(31)
Credit related losses on sales	(12)	(2)
Total	(440)	(160)
Realized investment gains (losses), net Fixed Maturity Securities	$ (378)	$ (88)

(1) 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 $44 million in the third quarter of 2008, none of which related to asset-backed securities collateralized by sub-prime mortgages, were primarily due to credit spread increases in the marketplace and liquidity concerns. See General Account Investments Fixed Maturity Securities Asset-Backed Securities for additional information regarding our exposure to sub-prime mortgages. Net losses on sales and maturities of fixed maturity securities of $61 million in the third quarter of 2007 were primarily due to credit spread increases in the structured credit marketplace resulting from concerns

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over sub-prime mortgage exposures, and interest rates. Gross losses on sales and maturities in the third quarter of 2007 include $67 million related to sales of asset-backed securities collateralized by sub-prime mortgages. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in the third quarter of 2008 and 2007.

Net realized losses on equity securities were $103 million in the third quarter of 2008, of which net losses on sales of equity securities were $32 million and other-than-temporary impairments were $71 million. Net realized gains on equity securities were $118 million in the third quarter of 2007, of which net gains on sales of equity securities were $127 million, partially offset by other-than-temporary impairments of $9 million. Net realized gains on equity securities in 2007 were primarily due to sales of Japanese equities in our Gibraltar Life and Japanese Life Planner operations from portfolio restructuring and equity sales in our Korean Life Planner operations. See below for additional information regarding the other-than-temporary impairments of equity securities in the third quarter of 2008 and 2007.

Net realized gains on derivatives were $114 million in the third quarter of 2008, compared to net derivative losses of $264 million in the third quarter of 2007. The net derivative gains in 2008 primarily reflect positive mark-to-market adjustments of $153 million on currency derivatives used to hedge foreign investments due to the strengthening of the U.S. dollar and net gains of $147 million from interest rate derivative contracts mainly used to manage the duration of the fixed maturity investment portfolio. Also contributing to the net derivative gains in the third quarter of 2008 were net gains of $103 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses and net gains of $31 million related to equity market hedges used in our asset management business. Partially offsetting these gains were mark-to-market losses of $132 million on embedded derivatives associated with certain externally managed investments in the European market, net losses of $112 million on credit derivatives mainly related to contracts tied to our own credit and net losses of $101 million on embedded derivatives within certain variable annuity contracts, net of the effect of a related derivative hedging portfolio. Contracts tied to our own credit primarily relate to a credit derivative we issued concurrent with the issuance of surplus notes by one of our insurance subsidiaries. For additional information regarding these surplus notes and the associated credit derivative see Liquidity and Capital Resources Financing Activities. The net derivative losses in the third quarter of 2007 were primarily the result of net losses of $103 million on embedded derivatives associated with certain externally managed investments in the European market and net losses of $93 million from foreign currency forward contracts used to hedge the future income of non-U.S. businesses driven by the weakening of the U.S. dollar. Also contributing to the net derivative losses in the third quarter of 2007 was $34 million on derivative activity associated with our commercial mortgage operations. 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 investment losses on other investments were $25 million in the third quarter of 2008, including $11 million of other-than-temporary impairments on real estate investments and investments in joint ventures and partnerships. The remaining $14 million primarily related to mark-to-market losses on mortgage loans within our divested commercial mortgage securitization operations due to instability in the commercial mortgage-backed securities market during 2008. For additional information regarding these operations, see Divested Businesses. Net realized gains on other investments were $37 million in the third quarter of 2007, primarily from real estate related investments.

During the third quarter of 2008 we recorded total other-than-temporary impairments of $415 million attributable to the Financial Services Businesses, compared to total other-than-temporary impairments of $42 million attributable to the Financial Services Businesses in the third quarter of 2007. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments attributable to the Financial Services Businesses by asset type, and for fixed maturity securities, by reason.

	Three Months Ended September 30, 2008	2007
	(in millions)	
Other-than-temporary impairments Financial Services Businesses		
Public fixed maturity securities	$ 328	$ 29
Private fixed maturity securities	5	2
Total fixed maturity securities	333	31
Equity securities	71	9
Other invested assets(1)	11	2
Total	$ 415	$ 42

(1) Includes other-than-temporary impairments relating to real estate investments and investments in joint ventures and partnerships.

	Three Months Ended September 30, 2008		
	Asset-backed securities collateralized by sub-prime mortgages	All other Investments	Total
		(in millions)	
Other-than-temporary impairments on fixed maturity securities Financial Services Businesses			
Due to credit events or adverse conditions of the respective issuer(1)	$ 38	$ 197	$ 235
Due to other accounting guidelines(2)	53	45	98
Total	$ 91	$ 242	$ 333

(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.

(2) Represents 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 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. Also includes certain circumstances relating to asset-backed securities with a credit rating below AA, where the present value of market forecasted 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.

Fixed maturity other-than-temporary impairments in the third quarter of 2008 were concentrated in asset-backed securities and the finance and services sectors of our corporate securities, and were primarily driven by downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. Fixed maturity other-than-temporary impairments in the third quarter of 2008 included $82 million related to the filing of a Chapter 11 bankruptcy petition by Lehman Brothers Holdings Inc., or Lehman Brothers, and $49 million related to American International Group, or AIG. Equity security other-than-temporary impairments in the third quarter of 2008 were primarily driven by overall declines in the Japanese equity markets. Fixed maturity other-than-temporary impairments in the third quarter of 2007 were concentrated in asset-backed securities and the services and finance sectors of our corporate securities, and were primarily driven by credit spread increases as discussed above, interest rates, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuer. Included in the other-than-temporary impairments recorded on fixed maturities in the third quarter of 2007 were $11 million of other-than-temporary impairments on asset-backed securities collateralized by sub-prime mortgages. 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.

As mentioned above, fixed maturity other-than-temporary impairments in the third quarter of 2008 included $82 million related to the filing of a Chapter 11 bankruptcy petition by Lehman Brothers. In addition, the third quarter of 2008 also included a $75 million loss associated with this bankruptcy filing relating to the unsecured portion of our counterparty exposure on derivative transactions we had entered into with Lehman Brothers and its affiliates. We have replaced these derivative positions with various other counterparties. The counterparty loss was included in Asset management fees and other income, under the broker-dealer accounting model followed by our affiliated derivative subsidiary that executed these transactions, and was excluded from adjusted operating income as a related adjustment to Realized investment gains (losses), net. See Note 9 to the Unaudited Interim Consolidated Financial Statements for additional information.

As discussed above, previously recognized other-than-temporary impairments are accreted into net investment income and included in adjusted operating income, if the recoverable value of the investment based on the expected future cash flows is greater than the carrying value of the investment after the impairment. Net investment income for the third quarter of 2008 included $18 million from the accretion of other-than-temporary impairments recognized in previous periods. 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.

Closed Block Business

For the Closed Block Business, net realized investment gains in the third quarter of 2008 were $119 million, compared to net realized investment gains of $113 million in the third quarter of 2007. Net realized losses on fixed maturity securities were $54 million in the third quarter of 2008, compared to net realized losses of $22 million in the third quarter of 2007, as set forth in the following table:

	Three Months Ended September 30, 2008	Three Months Ended September 30, 2007
	(in millions)	
Realized investment gains (losses) Fixed Maturity Securities Closed Block Business		
Gross realized investment gains:		
Gross gains on sales and maturities	$ 114	$ 84
Private bond prepayment premiums	15	6
Total	129	90
Gross realized investment losses:		
Gross losses on sales and maturities(1)	(63)	(99)
Other-than-temporary impairments	(119)	(8)
Credit related losses on sales	(1)	(5)
Total	(183)	(112)
Realized investment gains (losses), net Fixed Maturity Securities	$ (54)	$ (22)

(1) 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 were $51 million in the third quarter of 2008, none of which 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. Net losses on sales and maturities of fixed maturity securities of $15 million in the third quarter of 2007 were primarily due to sales related to our total return investment strategy, and included $3 million of gross losses related to sales of asset-backed securities collateralized by sub-prime mortgages. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in the third quarter of 2008 and 2007.

Net realized losses on equity securities were $46 million in the third quarter of 2008, of which net losses on sales of equity securities were $32 million and other-than-temporary impairments were $14 million. Net realized gains on equity securities were $65 million in the third quarter of 2007, of which net trading gains on sales of equity securities were $69 million, partially offset by other-than-temporary impairments of $4 million. Results for both periods reflect sales pursuant to our active management strategy. See below for additional information regarding the other-than-temporary impairments of equity securities in the third quarter of 2008 and 2007.

Net gains on derivatives were $235 million in the third quarter of 2008, compared to net gains of $69 million in the third quarter of 2007. Derivative gains in the third quarter of 2008 primarily reflect net mark-to-market gains of $152 million on currency derivatives used to hedge foreign investments and net gains of $89 million on interest rate derivatives used to manage the duration of the fixed maturity investment portfolio. Derivative gains in the third quarter of 2007 were primarily the result of interest derivatives used to manage the duration of the fixed maturity 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 investment losses on other investments were $16 million in the third quarter of 2008, including $9 million related to other-than-temporary impairments on joint ventures and partnerships.

During the third quarter of 2008 we recorded total other-than-temporary impairments of $142 million attributable to the Closed Block Business, compared to total other-than-temporary impairments of $14 million attributable to the Closed Block Business in the third quarter of 2007. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments attributable to the Closed Block Business by asset type, and for fixed maturity securities, by reason.

	Three Months Ended September 30,	
	2008	2007
	(in millions)	
Other-than-temporary impairments Closed Block Business		
Public fixed maturity securities	$ 119	$ 8
Private fixed maturity securities		
Total fixed maturity securities	119	8
Equity securities	14	4
Other invested assets(1)	9	2
Total	$ 142	$ 14

(1) Includes other-than-temporary impairments relating to real estate investments and investments in joint ventures and partnerships.

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	Three Months Ended September 30, 2008		
	Asset-backed securities collateralized by sub-prime mortgages	All other Investments	Total
		(in millions)	
Other-than-temporary impairments on fixed maturity securities Closed Block Business			
Due to credit events or adverse conditions of the respective issuer(1)	$ 14	$ 73	$ 87
Due to other accounting guidelines(2)	25	7	32
Total	$ 39	$ 80	$ 119

(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.

(2) Represents 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 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. Also includes certain circumstances relating to asset-backed securities with a credit rating below AA, where the present value of market forecasted 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.

Fixed maturity other-than-temporary impairments in the third quarter of 2008 were concentrated in asset-backed securities and the services and finance sectors of our corporate securities and were primarily driven by downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. Fixed maturity other-than-temporary impairments in the third quarter of 2008 included $16 million related to the filing of a Chapter 11 bankruptcy petition by Lehman Brothers and $30 million related to AIG. Equity security other-than-temporary impairments in the third quarter of 2008 were primarily driven by overall declines in the equity markets. Fixed maturity other-than-temporary impairments in the third quarter of 2007 were concentrated in asset-backed securities and the services sector of our corporate securities and were primarily driven by credit spread increases as discussed above, interest rates, downgrades in credit, bankruptcy or other adverse financial conditions of the respective issuers. Included in the other-than-temporary impairments recorded on fixed maturities in the third quarter of 2007 were $8 million of other-than-temporary impairments on asset-backed securities collateralized by sub-prime mortgages. 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.

As discussed above, previously recognized other-than-temporary impairments are accreted into net investment income if the recoverable value of the investment based on the expected future cash flows, is greater than the carrying value of the investment after the impairment. Net investment income for the third quarter of 2008 did not materially benefit from the accretion of other-than-temporary impairments recognized in previous periods.

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2008 to 2007 Nine Month Comparison

Financial Services Businesses

The Financial Services Businesses net realized investment losses in the first nine months of 2008 were $1,744 million, compared to net realized investment gains of $141 million in the first nine months of 2007. Net realized losses on fixed maturity securities were $1,266 million in the first nine months of 2008, compared to net losses of $48 million in the first nine months of 2007, as set forth in the following table:

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
	(in millions)	
Realized investment gains (losses) - Fixed Maturity Securities Financial Services Businesses		
Gross realized investment gains:		
Gross gains on sales and maturities	$ 200	$ 189
Private bond prepayment premiums	20	10
Total	220	199
Gross realized investment losses:		
Gross losses on sales and maturities(1)	(265)	(188)
Other-than-temporary impairments	(1,173)	(53)
Credit related losses on sales	(48)	(6)
Total	(1,486)	(247)
Realized investment gains (losses), net Fixed Maturity Securities	$ (1,266)	$ (48)

(1) 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 $65 million in the first nine months of 2008, none of which related to asset-backed securities collateralized by sub-prime mortgages, were primarily due to credit spread increases in the marketplace and liquidity concerns. See General Account Investments Fixed Maturity Securities Asset-Backed Securities for additional information regarding our exposure to sub-prime mortgages. Net gains on sales and maturities of fixed maturity securities of $1 million in the first nine months of 2007 were primarily interest-rate related. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in the first nine months of 2008 and 2007.

Net realized losses on equity securities were $256 million in the first nine months of 2008, of which net losses on sales of equity securities were $42 million, and other-than-temporary impairments were $214 million. Net realized gains on equity securities were $324 million in the first nine months of 2007, of which net gains on sales of equity securities were $352 million, partially offset by other-than-temporary impairments of $28 million. Net realized gains on equity securities in 2007 were primarily due to sales of Japanese equities in our Gibraltar Life and Japanese Life Planner operations from portfolio restructuring and equity sales in our Korean Life Planner operations. See below for additional information regarding the other-than-temporary impairments of equity securities in the first nine months of 2008 and 2007.

Net realized losses on derivatives were $129 million in the first nine months of 2008, compared to net derivative losses of $228 million in the first nine months of 2007. The net derivative losses in the first nine months of 2008 primarily reflect net mark-to-market losses of $318 million on embedded derivatives associated with certain externally managed investments in the European market and net losses of $146 million on embedded derivatives within certain variable annuity contracts, net of the effect of a related derivative hedging portfolio. Partially offsetting these losses were positive mark to market adjustments of $132 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses, net gains of $62 million related to equity market hedges used in our asset management business, net gains of $60 million on interest rate derivatives used to manage the duration of the fixed maturity investment portfolio, and net gains of $58 million on currency derivatives used to hedge foreign investments in our domestic investment portfolio. The net derivative losses in the first nine months of 2007 were primarily the result of net losses of $123 million from interest rate derivative contracts mainly used to manage the duration of the U.S. dollar fixed maturity investment portfolio and net losses of $92 million on embedded derivatives associated with certain externally managed investments in the European market. For information regarding our externally managed investments in the European market, see General Account Investments Fixed Maturity Securities Fixed Maturity Securities and Unrealized Gains and Losses by Industry Category. 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 investment losses on other investments were $93 million in the first nine 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 mortgage-backed securities market during 2008. For additional information regarding these operations, see Divested Businesses. Net realized investment losses on other investments in the first nine months of 2008 also included $18 million of other-than-temporary impairments on real estate investments and investments in joint ventures and partnerships. Net realized investment gains on other investments were $93 million in the first nine months of 2007, primarily related to gains from real estate related investments, commercial loans, and our divested commercial mortgage securitization operations.

During the first nine months of 2008 we recorded total other-than-temporary impairments of $1,405 million attributable to the Financial Services Businesses, compared to total other-than-temporary impairments of $84 million attributable to the Financial Services Businesses in the first nine months of 2007. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments attributable to the Financial Services Businesses by asset type, and for fixed maturity securities, by reason.

	Nine Months Ended September 30, 2008	2007
	(in millions)	
Other-than-temporary impairments Financial Services Businesses		
Public fixed maturity securities	$ 1,140	$ 48
Private fixed maturity securities	33	5
Total fixed maturity securities	1,173	53
Equity securities	214	28
Other invested assets(1)	18	3
Total	$ 1,405	$ 84

(1) Includes other-than-temporary impairments relating to real estate investments and investments in joint ventures and partnerships.

	Nine Months Ended September 30, 2008		
	Asset-backed securities collateralized by sub-prime mortgages	All other Investments	Total
		(in millions)	
Other-than-temporary impairments on fixed maturity securities Financial Services Businesses			
Due to credit events or adverse conditions of the respective issuer(1)	$ 107	$ 240	$ 347

Due to other accounting guidelines(2)	649	177	826
Total	$ 756	$ 417	$ 1,173

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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.
(2) Represents 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 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. Also includes certain circumstances relating to asset-backed securities with a credit rating below AA, where the present value of market forecasted 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.

Fixed maturity other-than-temporary impairments in the first nine 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. Fixed maturity other-than-temporary impairments in the first nine months of 2008 included $82 million related to the filing of a Chapter 11 bankruptcy petition by Lehman Brothers and $49 million related to AIG. Equity security other-than-temporary impairments in the first nine months of 2008 were primarily driven by overall declines in the Japanese equity markets. Other-than-temporary impairments in the first nine months of 2007 were concentrated in asset-backed securities and the services and finance sectors of our corporate securities, and were primarily driven by interest rates, 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.

As mentioned above, fixed maturity other-than-temporary impairments in the first nine months of 2008 included $82 million related to the filing of a bankruptcy petition by Lehman Brothers. In addition, the first nine months of 2008 also included a $75 million loss associated with this bankruptcy filing relating to the unsecured portion of our counterparty exposure on derivative transactions we had entered into with Lehman Brothers and its affiliates. We have replaced these derivative positions with various other counterparties. The loss was included in Asset management fees and other income, under the broker-dealer accounting model followed by our affiliated derivative subsidiary that executed these transactions, and was excluded from adjusted operating income as a related adjustment to Realized investment gains (losses), net. See Note 9 to the Unaudited Interim Consolidated Financial Statements for additional information.

As discussed above, previously recognized other-than-temporary impairments are accreted into net investment income, and included in adjusted operating income if the recoverable value of the investment based on the expected future cash flows, is greater than the carrying value of the investment after the impairment. Net investment income for the first nine months of 2008 included $32 million from the accretion of other-than-temporary impairments recognized in previous periods.

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Closed Block Business

For the Closed Block Business, net realized investment losses in the first nine months of 2008 were $339 million, compared to net realized investment gains of $312 million in the first nine months of 2007. Net realized losses on fixed maturity securities were $269 million in the first nine months of 2008, compared to net realized gains of $66 million in the first nine months of 2007, as set forth in the following table:

	Nine Months Ended September 30, 2008	2007
	(in millions)	
Realized investment gains (losses) Fixed Maturity Securities Closed Block Business		
Gross realized investment gains:		
Gross gains on sales and maturities	$ 439	$ 301
Private bond prepayment premiums	23	13
Total	462	314
Gross realized investment losses:		
Gross losses on sales and maturities(1)	(224)	(220)
Other-than-temporary impairments	(479)	(17)
Credit related losses on sales	(28)	(11)
Total	(731)	(248)
Realized investment gains (losses), net Fixed Maturity Securities	$ (269)	$ 66

(1) 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 $215 million in the first nine months of 2008 were primarily due to sales related to our total return strategy. See General Account Investments Fixed Maturity Securities Asset-Backed Securities for additional information regarding our exposure to sub-prime mortgages. Net gains on sales and maturities of fixed maturity securities of $81 million in the first nine months of 2007 were primarily due to sales related to our total return strategy. See below for additional information regarding the other-than-temporary impairments of fixed maturity securities in the first nine months of 2008 and 2007.

Net realized losses on equity securities were $252 million in the first nine months of 2008, of which net losses on sales of equity securities were $51 million, and other-than-temporary impairments were $201 million. Net realized gains on equity securities were $303 million in the first nine months of 2007, of which net gains on sales of equity securities were $308 million, partially offset by other-than-temporary impairments of $5 million. Results for both periods reflect sales pursuant to our active management strategy. See below for additional information regarding the other-than-temporary impairments of equity securities in the first nine months of 2008 and 2007.

Net gains on derivatives were $207 million in the first nine months of 2008, compared to net losses of $59 million in the first nine months of 2007. Derivative gains in the first nine months of 2008 primarily reflect net mark-to-market gains of $121 million on interest rate derivatives used to manage the duration of the fixed maturity investment portfolio, net gains $68 million on currency derivatives used to hedge foreign investments and net gains of $42 million on credit derivatives used to hedge credit exposure in our investment portfolio. Derivative losses in the first nine months of 2007 were primarily the result of currency derivatives used to hedge foreign investments. For information regarding our methodology for determining the fair value of our derivative instruments, see Valuation of Assets and Liabilities Fair Value of Assets and Liabilities Valuation of Derivative Instruments.

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Net realized investment losses on other investments were $25 million in the first nine months of 2008, including $15 million related to other-than-temporary impairments on joint ventures and partnerships. Net realized investment gains on other investments were $2 million in the first nine months of 2007.

During the first nine months of 2008 we recorded total other-than-temporary impairments of $695 million attributable to the Closed Block Business, compared to total other-than-temporary impairments of $27 million attributable to the Closed Block Business in the first nine months of 2007. The following tables set forth, for the periods indicated, the composition of other-than-temporary impairments attributable to the Closed Block Business by asset type, and for fixed maturity securities, by reason.

	Nine Months Ended September 30, 2008	2007
	(in millions)	
Other-than-temporary impairments Closed Block Business		
Public fixed maturity securities	$ 455	$ 11
Private fixed maturity securities	24	6
Total fixed maturity securities	479	17
Equity securities	201	5
Other invested assets(1)	15	5
Total	$ 695	$ 27

(1) Includes other-than-temporary impairments relating to real estate investments and investments in joint ventures and partnerships.

	Nine Months Ended September 30, 2008		
	Asset-backed securities collateralized by sub-prime mortgages	All other Investments	Total
		(in millions)	
Other-than-temporary impairments on fixed maturity securities Closed Block Business			
Due to credit events or adverse conditions of the respective issuer(1)	$ 36	$ 98	$ 134
Due to other accounting guidelines(2)	282	63	345
Total	$ 318	$ 161	$ 479

(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.

(2) Represents 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 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. Also includes certain circumstances relating to asset-backed securities with a credit rating below AA, where the present value of market forecasted 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.

Other-than-temporary impairments in the first nine months of 2008 were concentrated in asset-backed securities and the services, 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. Fixed maturity other-than-temporary impairments in the first nine months of 2008 included $16 million related to the filing of a Chapter 11 bankruptcy petition by Lehman Brothers and $30 million related to AIG. Equity security other-than-temporary impairments in the first nine months of 2008 were primarily driven by overall declines in the equity markets. Other-than-temporary impairments in the first nine months of 2007 were concentrated in asset-backed securities and the services and manufacturing sectors of our corporate securities and were primarily driven by interest rates, downgrades in

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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.

As discussed above, previously recognized other-than-temporary impairments are accreted into net investment income if the recoverable value of the investment based on the expected future cash flows is greater than the carrying value of the investment after the impairment. Net investment income for the first nine months of 2008 did not materially benefit from the accretion of other-than-temporary impairments recognized in previous periods.

General Account Investments

Portfolio Composition

Our investment portfolio consists of public and private fixed maturity securities, commercial 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 $229.9 billion and $232.5 billion as of September 30, 2008 and December 31, 2007, respectively, which are segregated between the Financial Services Businesses and the Closed Block Business. Total general account investments attributable to the Financial Services Businesses were $169.0 billion and $163.0 billion as of September 30, 2008 and December 31, 2007, respectively, while total general account investments attributable to the Closed Block Business were $60.9 billion and $69.5 billion as of September 30, 2008 and December 31, 2007, respectively. The following table sets forth the composition of the investments of our general account as of the dates indicated. The average duration of our general account investment portfolio attributable to the domestic Financial Services Businesses, including the impact of derivatives, as of September 30, 2008 is between 4 and 5 years.

	September 30, 2008			
	Financial Services Businesses	Closed Block Business	Total	% of Total
	($ in millions)			
Fixed Maturities:				
Public, available for sale, at fair value	$ 92,533	$ 29,283	$ 121,816	53.0%
Public, held to maturity, at amortized cost	2,774		2,774	1.2
Private, available for sale, at fair value	20,171	11,695	31,866	13.9
Private, held to maturity, at amortized cost	707		707	0.3
Trading account assets supporting insurance liabilities, at fair value	14,392		14,392	6.3
Other trading account assets, at fair value	856	128	984	0.4
Equity securities, available for sale, at fair value	4,244	3,131	7,375	3.2
Commercial loans, at book value	21,829	8,563	30,392	13.2
Policy loans, at outstanding balance	3,822	5,389	9,211	4.0
Other long-term investments(1)	2,508	1,416	3,924	1.7
Short-term investments(2)	5,184	1,263	6,447	2.8
Total general account investments	169,020	60,868	229,888	100.0%

Invested assets of other entities and operations(3)	11,019		11,019
Total investments	$ 180,039	$ 60,868	$ 240,907

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	December 31, 2007			
	Financial Services Businesses	Closed Block Business	Total	% of Total
	($ in millions)			
Fixed Maturities:				
Public, available for sale, at fair value	$ 90,962	$ 37,168	$ 128,130	55.1%
Public, held to maturity, at amortized cost	2,879		2,879	1.2
Private, available for sale, at fair value	20,313	12,246	32,559	14.0
Private, held to maturity, at amortized cost	669		669	0.3
Trading account assets supporting insurance liabilities, at fair value	14,473		14,473	6.2
Other trading account assets, at fair value	204	142	346	0.2
Equity securities, available for sale, at fair value	4,629	3,940	8,569	3.7
Commercial loans, at book value	19,603	7,954	27,557	11.9
Policy loans, at outstanding balance	3,942	5,395	9,337	4.0
Other long-term investments(1)	2,724	1,268	3,992	1.7
Short-term investments(2)	2,598	1,385	3,983	1.7
Total general account investments	162,996	69,498	232,494	100.0%
Invested assets of other entities and operations(3)	11,063		11,063	
Total investments	$ 174,059	$ 69,498	$ 243,557	

(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 securities brokerage, securities trading, 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 2008 was primarily a result of net operating inflows, the reinvestment of net investment results and the impact of foreign currency, partially offset by net declines in market value, primarily attributable to increased credit spreads. Net operating inflows include transfers of investments out of the separate accounts and into our general account relating to an automatic rebalancing element embedded in the living benefit features of some of our variable annuity products. As part of the overall product design, the automatic rebalancing element transferred investments out of the separate accounts, and into our general account, due to equity market declines. The decrease in general account investments attributable to the Closed Block Business in 2008 was primarily due to reductions in leverage and a net decrease in market value, partially offset by portfolio growth as a result of reinvestment of net investment income.

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We have substantial insurance operations in Japan, with 32% and 31% of our Financial Services Businesses general account investments relating to our Japanese insurance operations as of September 30, 2008 and December 31, 2007, respectively. Total general account investments related to our Japanese insurance operations were $53.3 billion and $50.7 billion as of September 30, 2008 and December 31, 2007, respectively. The average duration of our general account investment portfolio related to our Japanese insurance operations, including the impact of derivatives, as of September 30, 2008 is approximately 11 years. The increase in general account investments related to our Japanese insurance operations in 2008 is primarily attributable to the impact of changes in foreign currency exchange rates, portfolio growth as a result of business growth and the reinvestment of net investment income, partially offset by net declines in market value. The following table sets forth the composition of the investments of our Japanese insurance operations general account as of the dates indicated.

	September 30, 2008	December 31, 2007
	(in millions)	
Fixed Maturities:		
Public, available for sale, at fair value	$ 36,886	$ 34,752
Public, held to maturity, at amortized cost	2,774	2,879
Private, available for sale, at fair value	3,144	3,467
Private, held to maturity, at amortized cost	707	668
Trading account assets supporting insurance liabilities, at fair value	1,042	1,132
Other trading account assets, at fair value	669	48
Equity securities, available for sale, at fair value	2,355	2,550
Commercial loans, at book value	3,108	2,881
Policy loans, at outstanding balance	1,293	1,133
Other long-term investments(1)	1,171	993
Short-term investments	147	239
Total Japanese general account investments(2)	$ 53,296	$ 50,742

(1) Other long-term investments consist of real estate and non-real estate related investments in joint ventures and partnerships, investment real estate held through direct ownership, and other miscellaneous investments.
(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 in yen denominated investments, our Japanese insurance operations also hold significant investments denominated in U.S. dollars. As of September 30, 2008, our Japanese insurance operations had $12.6 billion of investments denominated in U.S. dollars, including $1.3 billion that were hedged to yen through third party derivative contracts and $5.4 billion that support liabilities denominated in U.S. dollars. As of December 31, 2007, our Japanese insurance operations had $10.2 billion of investments denominated in U.S. dollars, including $1.1 billion that were hedged to yen through third party derivative contracts and $4.1 billion that support liabilities denominated in U.S. dollars. For additional information regarding U.S. dollar investments held in our Japanese insurance operations see, Results of Operations for Financial Services Businesses by Segment International Insurance and Investments Division.

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Investment Results

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

	Three Months Ended September 30, 2008					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	4.80%	$ 1,413	6.23%	$ 649	5.17%	$ 2,062
Trading account assets supporting insurance liabilities	5.21	187			5.21	187
Equity securities	5.51	64	2.91	24	4.44	88
Commercial loans	5.86	316	6.42	137	6.02	453
Policy loans	5.48	54	6.32	85	5.96	139
Short-term investments and cash equivalents	2.39	72	8.90	20	2.61	92
Other investments	3.49	33	(0.60)	(3)	2.29	30
Gross investment income before investment expenses	4.84	2,139	5.93	912	5.12	3,051
Investment expenses	(0.13)	(81)	(0.23)	(64)	(0.16)	(145)
Investment income after investment expenses	4.71%	2,058	5.70%	848	4.96%	2,906
Investment results of other entities and operations(2)		25				25
Total investment income		$ 2,083		$ 848		$ 2,931

	Three Months Ended September 30, 2007					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	5.01%	$ 1,426	6.29%	$ 763	5.38%	$ 2,189
Trading account assets supporting insurance liabilities	5.14	183			5.14	183
Equity securities	5.82	60	2.54	21	4.36	81
Commercial loans	6.24	280	6.77	124	6.39	404
Policy loans	5.08	47	6.12	82	5.69	129
Short-term investments and cash equivalents	5.11	93	12.93	59	6.21	152
Other investments	3.55	26	22.28	57	8.53	83
Gross investment income before investment expenses	5.17	2,115	6.49	1,106	5.54	3,221
Investment expenses	(0.13)	(128)	(0.22)	(146)	(0.16)	(274)
Investment income after investment expenses	5.04%	1,987	6.27%	960	5.38%	2,947
Investment results of other entities and operations(2)		86				86
Total investment income		$ 2,073		$ 960		$ 3,033

(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 4.96% and 5.38% for the three months ended September 30, 2008 and

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2007, respectively. The net investment income yield attributable to the Financial Services Businesses was 4.71% for the three months ended September 30, 2008, compared to 5.04% for the three months ended September 30, 2007. 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 5.70% for the three months ended September 30, 2008, compared to 6.27% for the three months ended September 30, 2007. 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 of the underlying assets.

	Nine Months Ended September 30, 2008					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield (1)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	4.85%	$ 4,191	6.35%	$ 2,021	5.24%	$ 6,212
Trading account assets supporting insurance liabilities	5.25	561			5.25	561
Equity securities	4.96	170	3.31	81	4.27	251
Commercial loans	5.97	922	6.58	405	6.14	1,327
Policy loans	5.31	157	6.35	251	5.90	408
Short-term investments and cash equivalents	2.96	238	11.23	76	3.28	314
Other investments	3.92	95	2.03	21	3.35	116
Gross investment income before investment expenses	4.91	6,334	6.14	2,855	5.23	9,189
Investment expenses	(0.14)	(241)	(0.24)	(230)	(0.16)	(471)
Investment income after investment expenses	4.77%	6,093	5.90%	2,625	5.07%	8,718
Investment results of other entities and operations(2)		266				266
Total investment income		$ 6,359		$ 2,625		$ 8,984

	Nine Months Ended September 30, 2007					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
			($ in millions)			
Fixed maturities	5.06%	$ 4,264	6.46%	$ 2,278	5.46%	$ 6,542
Trading account assets supporting insurance liabilities	5.03	529			5.03	529
Equity securities	5.04	149	2.98	71	4.12	220
Commercial loans	6.15	798	7.03	376	6.41	1,174
Policy loans	5.11	136	6.22	246	5.77	382
Short-term investments and cash equivalents	4.99	275	9.00	141	5.45	416
Other investments	5.60	118	21.36	147	9.58	265
Gross investment income before investment expenses	5.19	6,269	6.58	3,259	5.58	9,528
Investment expenses	(0.14)	(402)	(0.22)	(420)	(0.17)	(822)
Investment income after investment expenses	5.05%	5,867	6.36%	2,839	5.41%	8,706
Investment results of other entities and operations(2)		249				249

Total investment income	$ 6,116	$ 2,839	$ 8,955

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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 5.07% and 5.41% for the nine months ended September 30, 2008 and 2007, respectively. The net investment income yield attributable to the Financial Services Businesses was 4.77% for the nine months ended September 30, 2008, compared to 5.05% for the nine months ended September 30, 2007. 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 5.90% for the nine months ended September 30, 2008, compared to 6.36% for the nine months ended September 30, 2007. 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 of 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 September 30, 2008		Three Months Ended September 30, 2007	
	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)			
Fixed maturities	5.82%	$ 1,074	6.30%	$ 1,163
Trading account assets supporting insurance liabilities	5.42	180	5.40	177
Equity securities	7.53	39	8.25	40
Commercial loans	6.07	280	6.55	249
Policy loans	6.26	42	5.58	37
Short-term investments and cash equivalents	2.49	69	5.49	84
Other investments	1.37	8	0.86	5
Gross investment income before investment expenses	5.54	1,692	6.10	1,755
Investment expenses	(0.11)	(57)	(0.11)	(106)
Investment income after investment expenses	5.43%	1,635	5.99%	1,649
Investment results of other entities and operations(2)		25		86
Total investment income		$ 1,660		$ 1,735

(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 5.43% for the three months ended September 30, 2008, compared to 5.99% for

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the three months ended September 30, 2007. 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.

	Nine Months Ended September 30, 2008		Nine Months Ended September 30, 2007	
	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)			
Fixed maturities	5.97%	$ 3,211	6.39%	$ 3,487
Trading account assets supporting insurance liabilities	5.50	542	5.31	513
Equity securities	7.49	113	7.55	105
Commercial loans	6.17	816	6.46	706
Policy loans	5.97	121	5.65	107
Short-term investments and cash equivalents	3.01	223	5.39	257
Other investments	1.31	19	2.43	35
Gross investment income before investment expenses	5.70	5,045	6.16	5,210
Investment expenses	(0.11)	(162)	(0.13)	(332)
Investment income after investment expenses	5.59%	4,883	6.03%	4,878
Investment results of other entities and operations(2)		266		249
Total investment income		$ 5,149		$ 5,127

(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 5.59% for the nine months ended September 30, 2008, compared to 6.03% for the nine months ended September 30, 2007. 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 investments in joint ventures and limited partnerships, driven by lower appreciation of 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 our Japanese operations general account for the periods indicated.

	Three Months Ended September 30, 2008		Three Months Ended September 30, 2007	
	Yield(1)	Amount	Yield(1)	Amount
	($ in millions)			
Fixed maturities	3.11%	$ 339	2.72%	$ 263
Trading account assets supporting insurance liabilities	2.73	7	2.25	6
Equity securities	3.82	25	3.66	20
Commercial loans	4.66	36	4.53	31

Policy loans	3.82	12	3.81	10
Short-term investments and cash equivalents	1.39	3	3.45	9
Other investments	5.58	25	10.17	21
Gross investment income before investment expenses	3.29	447	3.03	360
Investment expenses	(0.18)	(24)	(0.17)	(22)
Total investment income	3.11%	$ 423	2.86%	$ 338

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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.

The net investment income yield attributable to the Japanese insurance operations portfolios was 3.11% for the three months ended September 30, 2008, compared to 2.86% for the three months ended September 30, 2007. The increase in yield on the Japanese insurance portfolio is primarily attributable to an increase in unhedged U.S. dollar investments, the lengthening of the duration of the investment portfolio by investing in longer term securities, and an increase in credit exposure. 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 September 30, 2008 and 2007 was approximately $11.0 billion and $7.3 billion, respectively, based on amortized cost.

	Nine Months Ended September 30, 2008		Nine Months Ended September 30, 2007	
	Yield(1)	Amount	Yield(1)	Amount
		($ in millions)		
Fixed maturities	3.01%	$ 980	2.70%	$ 777
Trading account assets supporting insurance liabilities	2.25	19	1.85	16
Equity securities	2.96	57	2.82	44
Commercial loans	4.75	106	4.49	92
Policy loans	3.86	36	3.78	29
Short-term investments and cash equivalents	2.46	15	2.91	18
Other investments	7.42	76	12.76	83
Gross investment income before investment expenses	3.21	1,289	3.00	1,059
Investment expenses	(0.19)	(79)	(0.17)	(70)
Total investment income	3.02%	$ 1,210	2.83%	$ 989

(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 3.02% for the nine months ended September 30, 2008, compared to 2.83% for the nine months ended September 30, 2007. The increase in yield on the Japanese insurance portfolio is primarily attributable to an increase in unhedged U.S. dollar investments, the lengthening of the duration of the investment portfolio by investing in longer term securities, and an increase in credit exposure. 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 nine months ended September 30, 2008 and 2007 was approximately $9.5 billion and $7.3 billion, respectively, based on amortized cost. For additional information regarding U.S. dollar investments held in our Japanese insurance operations and our on-going process to lengthen the duration of our Japanese yen investment portfolio see, Results of Operations for Financial Services Businesses by Segment International Insurance and Investments Division.

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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

	September 30, 2008				December 31, 2007			
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	$ 16,385	$ 233	$ 882	$ 15,736	$ 14,754	$ 523	$ 248	$ 15,029
Utilities	10,143	195	615	9,723	10,170	408	191	10,387
Finance	9,048	36	849	8,235	11,009	141	247	10,903
Services	8,639	97	641	8,095	8,238	237	191	8,284
Energy	4,105	55	303	3,857	4,009	157	69	4,097
Transportation	3,106	68	122	3,052	2,872	112	38	2,946
Retail and Wholesale	3,139	24	162	3,001	2,722	64	50	2,736
Other	872	10	52	830	742	11	20	733
Total Corporate Securities	55,437	718	3,626	52,529	54,516	1,653	1,054	55,115
Foreign Government	28,802	993	113	29,682	27,606	904	98	28,412
Asset-Backed Securities	12,091	78	1,430	10,739	13,833	123	747	13,209
Residential Mortgage-Backed	10,991	131	78	11,044	7,782	104	46	7,840
Commercial Mortgage-Backed	8,420	8	584	7,844	6,581	102	25	6,658
U.S. Government	3,318	377	15	3,680	2,585	379		2,964
State & Municipal(3)	577	23	4	596	583	37		620