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

FORM 10-Q

(MARK ONE)

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

For the quarterly period ended June 30, 2002
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
(State or Other Jurisdiction of
Incorporation or Organization)

22-3703799
(I.R.S. Employer
Identification Number)

751 Broad Street
Newark, New Jersey
(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 ☒ No ☐

At August 2, 2002, 580,191,226 shares of the registrant's Common Stock (par value \$0.01) were outstanding. In addition, 2,000,000 shares of the registrant's Class B Stock, for which there is no established public trading market, were outstanding.

Table of Contents

INDEX

		Page Number
PART I	<u>FINANCIAL INFORMATION</u>	
	Item 1. <u>Financial Statements:</u>	
	<u>Unaudited Interim Consolidated Statements of Financial Position as of June 30, 2002 and December 31, 2001</u>	1
	<u>Unaudited Interim Consolidated Statements of Operations for the three and six months ended June 30, 2002 and 2001</u>	2
	<u>Unaudited Interim Consolidated Statement of Stockholders' Equity for the six months ended June 30, 2002</u>	3
	<u>Unaudited Interim Consolidated Statements of Cash Flows for the six months ended June 30, 2002 and 2001</u>	4
	<u>Notes to Unaudited Interim Consolidated Financial Statements</u>	5
	Unaudited Interim Supplemental Combining Financial Information:	
	<u>Unaudited Interim Supplemental Combining Statement of Financial Position as of June 30, 2002</u>	22
	<u>Unaudited Interim Supplemental Combining Statement of Operations for the three months ended June 30, 2002</u>	23
	<u>Unaudited Interim Supplemental Combining Statement of Operations for the six months ended June 30, 2002</u>	24
	<u>Notes to Unaudited Interim Supplemental Combining Financial Information</u>	25
	Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
	Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	84
PART II	<u>OTHER INFORMATION</u>	
	Item 1. <u>Legal Proceedings</u>	85
	Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	85
	Item 6. <u>Exhibits and Reports on Form 8-K</u>	86
	<u>SIGNATURE</u>	87

FORWARD-LOOKING STATEMENTS

Certain of the statements included in this Quarterly Report on Form 10-Q, including but not limited to those in the Management's Discussion and Analysis of Financial Condition and Results of Operations, constitute forward-looking statements within the meaning of the U.S. Private Securities Litigation Reform Act of 1995. Words such as "expects," "believes," "anticipates," "includes," "plans," "assumes," "estimates," "projects," "intends" or variations of such words are generally part of forward-looking statements. Forward-looking statements are made based on management's current expectations and beliefs concerning future developments and their potential effects upon Prudential Financial, Inc. and its subsidiaries. There can be no assurance that future developments affecting Prudential Financial, Inc. and its subsidiaries will be those anticipated by management. These forward-looking statements are not a guarantee of future performance and involve risks and uncertainties, and there are certain important factors that could cause actual results to differ, possibly materially, from expectations or estimates reflected in such forward-looking statements, including without limitation: general economic, market and political conditions, including the performance of financial markets, interest rate fluctuations and the continuing impact of the events of September 11, 2001; volatility in the securities markets; reestimates of our reserves for future policy benefits and claims; changes in our assumptions related to deferred policy acquisition costs; our exposure to contingent liabilities; catastrophe losses; investment losses and defaults; changes in our claims-paying or credit ratings; competition in our product lines and for personnel; fluctuations in foreign currency exchange rates and foreign securities markets; risks to our international operations; the impact

[Table of Contents](#)

of changing regulation or accounting practices; Prudential Financial, Inc.'s primary reliance, as a holding company, on dividends from its subsidiaries to meet debt payment obligations and the applicable regulatory restrictions on the ability of the subsidiaries to pay such dividends; adverse litigation results; and changes in tax law. Prudential Financial, Inc. does not intend, and is under no obligation, to update any particular forward-looking statement included in this Quarterly Report on Form 10-Q.

Throughout this Quarterly Report on Form 10-Q, "Prudential Financial" and the "Registrant" refer to Prudential Financial, Inc., the ultimate holding company for all of our companies. "Prudential Insurance" refers to The Prudential Insurance Company of America, before and after its demutualization on December 18, 2001 (the "date of demutualization"). "Prudential," the "Company," "we" and "our" refer to our consolidated operations before and after demutualization. The "Plan of Reorganization" refers to Prudential Insurance's Plan of Reorganization, dated as of December 15, 2000 and as amended from time to time thereafter, relating to Prudential Insurance's demutualization.

[Table of Contents](#)

PART I—FINANCIAL INFORMATION

ITEM 1. Financial Statements

PRUDENTIAL FINANCIAL, INC.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION JUNE 30, 2002 AND DECEMBER 31, 2001 (in millions, except share amounts)

	June 30, 2002	December 31, 2001
ASSETS		
Fixed maturities:		
Available for sale, at fair value (amortized cost: 2002—\$113,506; 2001—\$107,464)	\$ 116,782	\$ 109,942
Held to maturity, at amortized cost (fair value: 2002—\$2,293; 2001—\$395)	2,268	374
Trading account assets, at fair value	6,038	5,043
Equity securities, available for sale, at fair value (cost: 2002—\$3,151; 2001—\$2,252)	3,196	2,272
Commercial loans	19,524	19,729
Policy loans	8,707	8,570
Securities purchased under agreements to resell	5,136	4,421
Cash collateral for borrowed securities	5,530	5,210
Other long-term investments	5,253	5,418
Short-term investments	5,214	4,855
Total investments	177,648	165,834
Cash and cash equivalents	11,337	18,536
Accrued investment income	1,861	1,828
Broker-dealer related receivables	7,091	7,802
Deferred policy acquisition costs	7,112	6,868
Other assets	17,554	15,004
Separate account assets	75,101	77,158
TOTAL ASSETS	\$ 297,704	\$ 293,030
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Future policy benefits	\$ 88,110	\$ 86,991
Policyholders' account balances	44,363	43,333
Unpaid claims and claim adjustment expenses	3,352	3,408
Policyholders' dividends	2,132	2,096
Securities sold under agreements to repurchase	15,950	12,385
Cash collateral for loaned securities	10,547	9,427
Income taxes payable	1,630	1,332
Broker-dealer related payables	6,076	6,445
Securities sold but not yet purchased	3,185	2,791
Short-term debt	4,221	5,405
Long-term debt	4,753	5,304
Other liabilities	16,493	15,812
Separate account liabilities	75,101	77,158
Total liabilities	275,913	271,887
Guaranteed minority interest in Trust holding solely debentures of Parent	690	690
COMMITMENTS AND CONTINGENCIES (See Note 8)		
STOCKHOLDERS' EQUITY		
Preferred Stock (\$.01 par value; 10,000,000 shares authorized; none issued)	—	—
Common Stock (\$.01 par value; 1,500,000,000 shares authorized; 584,523,486 and 583,582,767 shares issued at June 30, 2002 and December 31, 2001, respectively)	6	6
Class B Stock (\$.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at June 30, 2002 and December 31, 2001)	—	—
Additional paid-in capital	19,512	19,462
Common Stock held in treasury, at cost (1,545,000 shares at June 30, 2002)	(53)	—
Deferred compensation	(29)	—
Accumulated other comprehensive income	1,539	944
Retained earnings	126	41
Total stockholders' equity	21,101	20,453
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 297,704	\$ 293,030

See Notes to Unaudited Interim Consolidated Financial Statements

[Table of Contents](#)

PRUDENTIAL FINANCIAL, INC.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF OPERATIONS
THREE MONTHS AND SIX MONTHS ENDED JUNE 30, 2002 AND 2001
(in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
REVENUES				
Premiums	\$ 3,418	\$ 3,170	\$ 6,640	\$ 5,772
Policy charges and fee income	412	483	846	875
Net investment income	2,276	2,371	4,418	4,653
Realized investment gains (losses), net	(490)	(25)	(639)	315
Commissions and other income	1,052	1,169	2,117	2,300
	<u>6,668</u>	<u>7,168</u>	<u>13,382</u>	<u>13,915</u>
Total revenues	6,668	7,168	13,382	13,915
BENEFITS AND EXPENSES				
Policyholders' benefits	3,442	3,310	6,645	5,965
Interest credited to policyholders' account balances	449	456	897	872
Dividends to policyholders	691	666	1,364	1,362
General and administrative expenses	2,195	2,463	4,341	4,675
Demutualization costs and expenses	—	117	—	162
	<u>6,777</u>	<u>7,012</u>	<u>13,247</u>	<u>13,036</u>
Total benefits and expenses	6,777	7,012	13,247	13,036
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	(109)	156	135	879
Income tax expense (benefit)	(41)	(39)	50	247
	<u>(150)</u>	<u>117</u>	<u>185</u>	<u>1,126</u>
NET INCOME (LOSS)	\$ (68)	\$ 195	\$ 85	\$ 632
EARNINGS PER SHARE (See Note 5)				
Financial Services Businesses				
Net income per share of Common Stock—basic and diluted	\$ 0.19		\$ 0.65	
Closed Block Business				
Net loss per share of Class B Stock—basic and diluted	\$ (88.50)		\$ (147.00)	

See Notes to Unaudited Interim Consolidated Financial Statements

[Table of Contents](#)

PRUDENTIAL FINANCIAL, INC.
UNAUDITED INTERIM CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
SIX MONTHS ENDED JUNE 30, 2002
(in millions)

	Common Stock	Class B Stock	Additional Paid-in Capital	Retained Earnings	Common Stock Held in Treasury	Deferred Compensation	Accumulated Other Comprehensive Income	Total Stockholders' Equity
Balance, December 31, 2001	\$ 6	\$ —	\$ 19,462	\$ 41	\$ —	\$ —	\$ 944	\$ 20,453
Stock based compensation	—	—	3	—	—	—	—	3
Treasury stock	—	—	—	—	(53)	—	—	(53)
Deferred compensation	—	—	—	—	—	(29)	—	(29)
Adjustments to policy credits issued and cash payments to eligible policyholders	—	—	47	—	—	—	—	47
Comprehensive income:								
Net income	—	—	—	85	—	—	—	85
Other comprehensive income, net of tax	—	—	—	—	—	—	595	595
Total comprehensive income								680
Balance, June 30, 2002	\$ 6	\$ —	\$ 19,512	\$ 126	\$ (53)	\$ (29)	\$ 1,539	\$ 21,101

See Notes to Unaudited Interim Consolidated Financial Statements

[Table of Contents](#)

PRUDENTIAL FINANCIAL, INC.

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
SIX MONTHS ENDED JUNE 30, 2002 AND 2001
(in millions)

	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 85	\$ 632
Adjustments to reconcile net income to net cash provided by operating activities:		
Realized investment (gains) losses, net	639	(315)
Policy charges and fee income	(247)	(267)
Interest credited to policyholders' account balances	897	872
Depreciation and amortization, including premiums and discounts	268	233
Change in:		
Deferred policy acquisition costs	(113)	(101)
Future policy benefits and other insurance liabilities	638	717
Trading account assets	(1,000)	1,570
Income taxes payable	63	(375)
Broker-dealer related receivables/payables	342	2,328
Securities purchased under agreements to resell	(715)	(774)
Cash collateral for borrowed securities	(304)	436
Cash collateral for loaned securities	1,104	(770)
Securities sold but not yet purchased	394	(980)
Securities sold under agreements to repurchase	3,565	281
Other, net	448	(867)
Cash flows from operating activities	6,064	2,620
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from the sale/maturity of:		
Fixed maturities, available for sale	27,263	65,073
Fixed maturities, held to maturity	48	121
Equity securities, available for sale	1,055	1,879
Commercial loans	1,565	2,973
Other long-term investments	481	448
Payments for the purchase of:		
Fixed maturities, available for sale	(33,887)	(67,130)
Fixed maturities, held to maturity	(1,939)	(181)
Equity securities, available for sale	(1,861)	(1,316)
Commercial loans	(1,364)	(814)
Other long-term investments	(620)	(984)
Cash from the acquisition of subsidiary	—	5,912
Short-term investments	(95)	35
Cash flows from (used in) investing activities	(9,354)	6,016
CASH FLOWS FROM FINANCING ACTIVITIES		
Policyholders' account deposits	4,373	3,338
Policyholders' account withdrawals	(3,872)	(4,305)
Net increase in short-term debt	(1,363)	(1,715)
Proceeds from deferred compensation program	53	—
Treasury stock acquired	(106)	—
Proceeds from the issuance of long-term debt	9	1,434
Repayments of long-term debt	(466)	(290)
Cash payments to eligible policyholders	(2,537)	—
Cash flows used in financing activities	(3,909)	(1,538)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(7,199)	7,098
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	18,536	7,676
CASH AND CASH EQUIVALENTS, END OF PERIOD	\$ 11,337	\$ 14,774

See Notes to Unaudited Interim Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Notes To Unaudited Interim Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION

Prudential Financial, Inc. (“Prudential Financial”) and its subsidiaries (collectively, “Prudential” or the “Company”) provide a wide range of insurance, investment management, securities and other financial products and services to both retail and institutional customers throughout the United States and in many other countries. Principal products and services provided include life insurance, property and casualty insurance, annuities, mutual funds, pension and retirement related investments and administration, asset management, and securities brokerage. The Company has organized its principal operations into the Financial Services Businesses and the Closed Block Business. The Financial Services Businesses operate through four operating divisions: U.S. Consumer, Employee Benefits, International and Asset Management. Businesses that are not sufficiently material to warrant separate disclosure are included in Corporate and Other operations within the Financial Services Businesses. The Closed Block Business, which is managed separately from the Financial Services Businesses, was established on the date of demutualization and includes the Company’s in force participating insurance and annuity products and assets that are used for the payment of benefits and policyholder dividends on these products, as well as other assets and equity that support these products and related liabilities. In connection with the demutualization, the Company has ceased offering these participating products.

Demutualization and Initial Public Offering

On December 18, 2001 (the “date of demutualization”), The Prudential Insurance Company of America (“Prudential Insurance”) converted from a mutual life insurance company to a stock life insurance company and became an indirect, wholly owned subsidiary of Prudential Financial. Concurrent with the demutualization, Prudential Insurance completed a corporate reorganization whereby various subsidiaries (and certain related assets and liabilities) of Prudential Insurance were divided so that they became wholly owned subsidiaries of Prudential Financial rather than of Prudential Insurance.

On the date of demutualization, Prudential Financial completed an initial public offering of 110.0 million shares of Common Stock at a price of \$27.50 per share and, on December 21, 2001, Prudential Financial issued an additional 16.5 million shares of Common Stock as a result of the exercise of the over-allotment option granted to underwriters in the initial public offering. Also on the date of demutualization, Prudential Financial completed the sale, through a private placement, of 2.0 million shares of Class B Stock, a separate class of common stock, at a price of \$87.50 per share. The Common Stock reflects the performance of the Financial Services Businesses, and the Class B Stock reflects the performance of the Closed Block Business.

Basis of Presentation

The unaudited interim consolidated financial statements include the accounts of Prudential Financial, its majority-owned subsidiaries and those partnerships and joint ventures in which the Company has a controlling financial interest, except in those instances where the Company cannot exercise control because the minority owners have substantive participating rights in the operating and capital decisions of the entity. Minority interest relating to consolidated entities that are less than 100% owned amounted to \$160 million and \$172 million as of June 30, 2002 and December 31, 2001, respectively. Minority interest is included in “Other liabilities.” The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). Intercompany balances and transactions have been eliminated. Effective on the date of demutualization and corporate reorganization, the historical consolidated financial statements of Prudential Insurance became the historical consolidated financial statements of Prudential Financial.

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, in particular deferred policy acquisition

PRUDENTIAL FINANCIAL, INC.

Notes To Unaudited Interim Consolidated Financial Statements

1. BUSINESS AND BASIS OF PRESENTATION (continued)

costs, investment allowances, future policy benefits, disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

In the opinion of management, all adjustments necessary for a fair statement of the financial position and results of operations have been made. All such adjustments are of a normal, recurring nature. Interim results are not necessarily indicative of the results that may be expected for the full year. These financial statements should be read in conjunction with the Company's audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

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

2. NEW ACCOUNTING PRONOUNCEMENTS

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets." SFAS No. 142 requires that an intangible asset acquired either individually or with a group of other assets shall initially be recognized and measured based on fair value. An intangible asset with a finite life is amortized over its useful life to the reporting entity; an intangible asset with an indefinite useful life, including goodwill, is not amortized. All indefinite lived intangible assets shall be tested for impairment in accordance with the statement. The Company has adopted SFAS No. 142 as of January 1, 2002. The Company has ceased the amortization of goodwill as of that date and has determined that the implementation of the transition provisions of this statement does not result in an impairment loss as of the adoption date of the standard. In the second half of 2002, the Company will commence the regular annual impairment tests of goodwill required by the statement. Goodwill, which is included in "Other assets," amounted to \$335 million at December 31, 2001, and goodwill amortization amounted to \$10 million for the six months ended June 30, 2001. During the six months ended June 30, 2002, the Company had no material acquisitions or impairments of goodwill.

3. CLOSED BLOCK

On the date of demutualization, Prudential Insurance established a Closed Block for certain individual life insurance policies and annuities issued by Prudential Insurance in the United States. The Closed Block forms the principal component of the Closed Block Business. For a discussion of the Closed Block Business, see Note 7 "Segment Information." The Company established a separate closed block for participating individual life insurance policies issued by the Canadian branch of Prudential Insurance. Because of the substantially smaller number of outstanding Canadian policies, this separate closed block is insignificant in size and is not included in the information presented below.

The recorded assets and liabilities were allocated to the Closed Block at their historical carrying amounts. During the first quarter of 2002, the Company completed a GAAP and statutory reconciliation of the assets and liabilities allocated to the Closed Block and the amounts reported as Closed Block assets and liabilities at December 31, 2001. As a result of this reconciliation, it was determined that net assets of \$94 million on a GAAP basis that had been included in the Financial Services Businesses should have been included in the Closed Block. During the first quarter of 2002, such assets were reclassified to the Closed Block from the Financial Services Businesses. The statutory amounts were unaffected.

The excess of Closed Block Liabilities over Closed Block Assets at the date of the demutualization (adjusted to eliminate the impact of related amounts in "Accumulated other comprehensive income (loss)")

PRUDENTIAL FINANCIAL, INC.

Notes To Unaudited Interim Consolidated Financial Statements

3. CLOSED BLOCK (continued)

represented the estimated maximum future earnings at that date from the Closed Block expected to result from operations attributed to the Closed Block after income taxes. As required by Statement of Position 00-3, the Company developed an actuarial calculation of the timing of such maximum future earnings. If actual cumulative earnings of the Closed Block from inception through the end of any given period are greater than the expected cumulative earnings, only the expected earnings will be recognized in income. Any excess of actual cumulative earnings over expected cumulative earnings will represent undistributed accumulated earnings attributable to policyholders and will be recorded as a policyholder dividend obligation to be paid to Closed Block policyholders as an additional policyholder dividend unless otherwise offset by future Closed Block performance that is less favorable than originally expected. As of June 30, 2002, no policyholder dividend obligation has been recorded. Alternatively, if the actual cumulative earnings of the Closed Block from its inception through the end of any given period are less than the expected cumulative earnings of the Closed Block, the Company will recognize only the actual earnings in income. However, the Company may reduce policyholder dividend scales in the future, which would be intended to increase future actual earnings until the actual cumulative earnings equaled the expected cumulative earnings.

Closed Block Liabilities and Assets designated to the Closed Block as of June 30, 2002 and December 31, 2001, as well as maximum future earnings to be recognized from Closed Block Liabilities and Closed Block Assets, are as follows:

	June 30, 2002	December 31, 2001
	(in millions)	
Closed Block Liabilities and Closed Block Assets		
Closed Block Liabilities		
Future policy benefits	\$ 47,791	\$ 47,239
Policyholders' dividends payable	1,178	1,171
Policyholders' account balances	5,447	5,394
Other Closed Block liabilities	10,188	4,603
	64,604	58,407
Closed Block Assets		
Total investments	57,156	52,492
Cash	2,813	1,810
Accrued investment income	735	716
Other Closed Block assets	1,234	635
	61,938	55,653
Excess of reported Closed Block Liabilities over Closed Block Assets	2,666	2,754
Portion of above representing accumulated other comprehensive income	1,144	792
Future earnings to be recognized from Closed Block Assets and Closed Block Liabilities	\$ 3,810	\$ 3,546

[Table of Contents](#)
PRUDENTIAL FINANCIAL, INC.
Notes To Unaudited Interim Consolidated Financial Statements
3. CLOSED BLOCK (continued)

Closed Block revenues and benefits and expenses for the three and six months ended June 30, 2002 were as follows:

	For the three months ended June 30, 2002	For the six months ended June 30, 2002
	(in millions)	
Closed Block Revenues and Benefits and Expenses		
Revenues		
Premiums	\$ 1,084	\$ 2,028
Net investment income	823	1,644
Realized investment losses, net	(156)	(226)
Other income	17	38
Total Closed Block revenues	1,768	3,484
Benefits and Expenses		
Policyholders' benefits	1,161	2,189
Interest credited to policyholders' account balances	34	68
Dividends to policyholders	648	1,291
General and administrative expense charge	196	411
Total Closed Block benefits and expenses	2,039	3,959
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes	(271)	(475)
Income tax (benefit)	(35)	(117)
Closed Block revenues, net of Closed Block benefits and expenses and income taxes	\$ (236)	\$ (358)

4. STOCKHOLDERS' EQUITY

The Company maintains a deferred compensation program for Financial Advisors and certain other employees (the "participants") of Prudential Securities Incorporated ("PSI") under which participants may elect to defer a portion of their compensation. Amounts deposited to participant accounts, including PSI matching contributions as well as other amounts based on the attainment of specific performance goals, vest in three to eight years. Nonvested balances are forfeited if the participant is terminated for cause or voluntarily terminates prior to the vesting date. In June 2002, participants were permitted to redeem all or a portion of their existing nonvested account balances and invest the proceeds in Prudential Financial, Inc. Common Stock. Accordingly, the Company acquired, on behalf of the participants electing to participate, 1,635,000 shares of Common Stock at a total cost of \$53 million. The shares of Common Stock held in the participants' accounts are considered restricted outstanding shares of Prudential Financial, Inc. Forfeited shares will be reflected as treasury stock of the Company as of the date of forfeiture. Deferred compensation expense of \$29 million associated with the balance converted to Common Stock, which is amortized over the vesting period, is recorded as a reduction in stockholders' equity as of June 30, 2002.

PRUDENTIAL FINANCIAL, INC.

Notes To Unaudited Interim Consolidated Financial Statements

4. STOCKHOLDERS' EQUITY *(continued)*

On January 22, 2002, Prudential Financial's Board of Directors authorized a stock repurchase program, with no termination date, under which the Company is authorized to purchase up to \$1 billion of the outstanding Common Stock. During the six months ended June 30, 2002, the Company acquired 3,180,000 shares of Common Stock at a total cost of \$106 million, including 1,635,000 shares that were immediately reissued to the PSI deferred compensation program referred to above.

Treasury stock is accounted for at cost. When treasury stock is reissued, the treasury stock balance is reduced by the average cost per share.

In June 2002, the Company made a general grant, under the Prudential Financial, Inc. Stock Option Plan, of 8,549,539 stock options at a weighted average exercise price of \$33.95 per share.

5. EARNINGS PER SHARE

The Company has outstanding two separate classes of common stock. The Common Stock reflects the performance of the Financial Services Businesses, and the Class B Stock reflects the performance of the Closed Block Business. Accordingly, earnings per share is calculated separately for each of these two classes of common stock. Earnings per share amounts are based on the earnings available to common stockholders for the period subsequent to the date of demutualization.

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

PRUDENTIAL FINANCIAL, INC.

Notes To Unaudited Interim Consolidated Financial Statements

5. EARNINGS PER SHARE (continued)

Common Stock

A reconciliation of the numerators and denominators of the basic and diluted per share computations for the three and six months ended June 30, 2002 is as follows:

	For the three months ended June 30, 2002		
	Income (in millions)	Weighted Average Shares	Per Share Amount
Basic earnings per share			
Net income attributable to the Financial Services Businesses	\$ 95		
Direct equity adjustment	14		
Net income attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	\$ 109	583,925,410	\$ 0.19
Effect of dilutive securities and deferred compensation programs			
Stock options		1,122,853	
Deferred compensation programs		190,076	
Diluted earnings per share			
Net income attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	\$ 109	585,238,339	\$ 0.19
	For the six months ended June 30, 2002		
	Income (in millions)	Weighted Average Shares	Per Share Amount
Basic earnings per share			
Net income attributable to the Financial Services Businesses	\$ 358		
Direct equity adjustment	21		
Net income attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	\$ 379	584,119,153	\$ 0.65
Effect of dilutive securities and deferred compensation programs			
Stock options		958,583	
Deferred compensation programs		95,038	
Diluted earnings per share			
Net income attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	\$ 379	585,172,774	\$ 0.65

Restricted outstanding shares of Common Stock held in participant accounts of the PSI deferred compensation program are excluded from the weighted average shares outstanding for the calculation of basic earnings per share until vested, at which time they are no longer restricted. Restricted outstanding shares are reflected in the diluted earnings per share calculation using the treasury stock method. Under the treasury stock method, the number of shares of Common Stock used in calculating earnings per share for any period is deemed to be increased by the excess of the weighted average number of restricted shares held in participant accounts over the number of shares that could be purchased in the market at the average market price of the Common

PRUDENTIAL FINANCIAL, INC.

Notes To Unaudited Interim Consolidated Financial Statements

5. EARNINGS PER SHARE (continued)

Stock during that period. The average deferred compensation expense associated with the restricted shares represents the assumed source of proceeds to purchase shares in the market.

The Company sponsors various other deferred compensation programs under which a portion of the ultimate liability may be paid using Common Stock. The potential issuance of shares is reflected in the diluted earnings per share calculation using the treasury stock method.

The Company's equity security units include, as a component, purchase contracts requiring the holders to purchase shares of Common Stock on November 15, 2004. The purchase contracts, which are reflected in the diluted earnings per share calculation using the treasury stock method, are dilutive to earnings per share when the average market price of the Common Stock for a particular period is above \$34.10.

For the three months ended June 30, 2002, 1,940,828 options, weighted for the portion of the period they were outstanding and with a weighted average exercise price of \$31.25 per share, were excluded from the computation of diluted earnings per share because the options, based on application of the treasury stock method, were antidilutive.

Class B Stock

The net loss attributable to the Closed Block Business available to holders of Class B Stock after direct equity adjustment for the three and six months ended June 30, 2002 amounted to \$177 million and \$294 million, respectively. For the three months ended June 30, 2002, the direct equity adjustment resulted in an increase of \$14 million in the net loss attributable to the Closed Block Business applicable to holders of Class B Stock for earnings per share purposes. For the six months ended June 30, 2002, the direct equity adjustment resulted in an increase of \$21 million in the net loss attributable to the Closed Block Business applicable to holders of Class B Stock for earnings per share purposes. For the three and six months ended June 30, 2002, the weighted average number of shares of Class B Stock used in the calculation of basic earnings per share amounted to 2,000,000 shares. There are no potentially dilutive shares associated with the Class B Stock.

6. COMPREHENSIVE INCOME

The components of comprehensive income for the three and six months ended June 30, 2002 and 2001 are as follows:

	For the three months ended June 30,		For the six months ended June 30,	
	2002	2001	2002	2001
			(in millions)	
Net income (loss)	\$ (68)	\$ 195	\$ 85	\$ 632
Change in foreign currency translation adjustments	82	69	88	(30)
Change in net unrealized investment gains (losses)	1,124	(110)	507	524
Other comprehensive income (loss), net of tax	1,206	(41)	595	494
Comprehensive income	\$ 1,138	\$ 154	\$ 680	\$ 1,126

PRUDENTIAL FINANCIAL, INC.

Notes To Unaudited Interim Consolidated Financial Statements

6. COMPREHENSIVE INCOME (continued)

Changes in each component of “Accumulated other comprehensive income” for the six months ended June 30, 2002 and the year ended December 31, 2001 are as follows (net of taxes):

	Accumulated Other Comprehensive Income			
	Foreign Currency Translation Adjustments	Net Unrealized Investment Gains	Pension Liability Adjustment	Total Accumulated Other Comprehensive Income
	(in millions)			
Balance, December 31, 2000	\$ (107)	\$ 359	\$ (18)	\$ 234
Change in foreign currency translation adjustments	(130)	—	—	(130)
Change in net unrealized investment gains	—	869	—	869
Additional pension liability adjustment	—	—	(29)	(29)
Balance, December 31, 2001	(237)	1,228	(47)	944
Change in foreign currency translation adjustments	88	—	—	88
Change in net unrealized investment gains	—	507	—	507
Balance, June 30, 2002	\$ (149)	\$ 1,735	\$ (47)	\$ 1,539

7. SEGMENT INFORMATION

The Company has organized its principal operations into the Financial Services Businesses and the Closed Block Business. Within the Financial Services Businesses, the Company operates through four divisions, which together encompass ten reportable segments. The four operating divisions within the Financial Services Businesses are: U.S. Consumer, Employee Benefits, International and Asset Management. Businesses that are not sufficiently material to warrant separate disclosure are included in Corporate and Other operations. Collectively, the businesses that comprise the four operating divisions and Corporate and Other are referred to as the Financial Services Businesses. The segments within the Financial Services Businesses as well as the Closed Block Business correspond to businesses for which discrete financial information is available and reviewed by management.

International Insurance segment results include Gibraltar Life Insurance Company, Ltd. (“Gibraltar Life”), from April 2, 2001, the date of reorganization, through May 31, 2002.

Adjusted Operating Income

In managing the Financial Services Businesses, the Company analyzes the operating performance of each segment using “adjusted operating income,” which is a non-GAAP measure. Adjusted operating income is calculated by adjusting income from operations before income taxes to exclude certain items. The items excluded are realized investment gains, net of losses and related charges and adjustments (as discussed further below); demutualization costs and expenses; and the gains, losses and contribution to income/loss of divested businesses that have been exited or sold but did not qualify for “discontinued operations” treatment under GAAP.

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

PRUDENTIAL FINANCIAL, INC.

Notes To Unaudited Interim Consolidated Financial Statements

7. SEGMENT INFORMATION (continued)

The Company excludes realized investment gains, net of losses and related charges and adjustments, from adjusted operating income because the timing of transactions resulting in recognition of gains or losses is largely at the Company's discretion and the amount of these gains or losses is heavily influenced by and fluctuates in part according to the availability of market opportunities. Including the fluctuating effects of these transactions could distort trends in the underlying profitability of the businesses. The Company excludes demutualization costs and expenses as they are directly related to demutualization and could distort the trends associated with our business operations. The Company excludes the gains and losses and contribution to income/loss of divested businesses because, as a result of the decision to dispose of these businesses, these results are not relevant to the profitability of the Financial Services Businesses' ongoing operations and could distort the trends associated with its ongoing businesses.

The related charges offset against net realized investment gains and losses relate to policyholder dividends, amortization of deferred policy acquisition costs and reserves for future policy benefits. A percentage of net realized investment gains on specified Gibraltar Life assets is required to be paid as dividends to Gibraltar Life policyholders. Deferred policy acquisition costs for certain investment-type products are amortized based on estimated gross profits, which include net realized investment gains and losses on the underlying invested assets, and the related charge for amortization of deferred policy acquisition costs represents the portion of this amortization associated with net realized investment gains and losses. The reserves for certain policies are adjusted when cash flows related to these policies are affected by net realized investment gains and losses, and the related charge for reserves for future policy benefits represents that adjustment.

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

Adjusted operating income of the International Insurance segment reflects the impact of an intercompany arrangement with Corporate and Other pursuant to which the segment's results for a particular year, including its interim reporting periods, are translated at fixed currency exchange rates. The fixed rates are determined in connection with a currency hedging program designed to mitigate the risk that unfavorable rate changes will reduce the segment's U.S. dollar equivalent earnings. Pursuant to this program, the Company executes forward sale contracts in the hedged currency in exchange for U.S. dollars at a specified exchange rate. The maturities of these forwards correspond with the future periods in which the non-U.S. earnings are expected to be generated. These contracts do not qualify for hedge accounting under GAAP and, as noted above, all resulting profits or losses from such contracts are included in "Realized investment gains (losses), net." When the contracts are terminated in the same period that the expected earnings emerge, the resulting positive or negative cash flow effect is included in adjusted operating income (revenues of \$16 million for the three months ended June 30, 2002 and \$7 million for the three months ended June 30, 2001; revenues of \$37 million for the six months ended June 30, 2002 and \$11 million for the six months ended June 30, 2001). As of June 30, 2002, the fair value of open contracts used for this purpose was a net liability of \$71 million.

The Company utilizes interest and currency swaps to manage interest and currency exchange rate exposures arising from mismatches between assets and liabilities, including duration mismatches. For the swap contracts that do not qualify for hedge accounting treatment, mark-to-market adjustments of open contracts as well as periodic settlements are included in "Realized investment gains (losses), net." However, periodic settlements pertaining to these swap contracts are included in adjusted operating income. Adjusted operating income includes \$10 million and \$20 million in the three and six months ended June 30, 2002, respectively, pertaining to periodic settlements of such contracts. Amounts in the corresponding periods last year were insignificant.

PRUDENTIAL FINANCIAL, INC.

Notes To Unaudited Interim Consolidated Financial Statements

7. SEGMENT INFORMATION *(continued)*

Adjustments to realized investment gains (losses) that pertain to the Financial Services Businesses and not the Closed Block Business include the effect on adjusted operating income of the transactions described in the prior three paragraphs.

The Other Asset Management segment uses hedging instruments to mitigate the risk that operating results will fluctuate due to changes in the estimated fair value of mortgages held for sale, commitments to lend and loan applications received. These derivatives are accounted for as derivatives held for trading purposes. Consequently, on a consolidated basis, changes in the estimated fair value of such hedging instruments (losses of \$22 million for the three months ended June 30, 2002 and gains of \$22 million for the three months ended June 30, 2001; losses of \$13 million for the six months ended June 30, 2002 and gains of \$6 million for the six months ended June 30, 2001) are included on a current basis in adjusted operating income, in other revenues, while the related mortgage loans are recorded at the lower of aggregate cost or fair value. For segment reporting, changes in the estimated fair value of the mortgage loans are included on a current basis in adjusted operating income of the Other Asset Management segment with an offsetting adjustment in adjusted operating income of Corporate and Other operations.

Adjusted operating income for each segment includes earnings on attributed equity established at a level which management considers necessary to support the segment's risks.

Prior to the date of demutualization, management analyzed the results of the Traditional Participating Products segment based on adjusted operating income. Beginning in 2002, management no longer considers adjusted operating income to assess operating performance of the Closed Block Business. Consequently, results of the Closed Block Business for all periods are presented only in accordance with GAAP.

Segment Results

For the three and six months ended June 30, 2001, the results of the Closed Block Business are those of the Traditional Participating Products segment, which historically sold primarily participating insurance and annuity products that the Company ceased offering in connection with demutualization. Upon the establishment of the Closed Block Business, \$5.6 billion of net assets previously associated with the Traditional Participating Products segment was transferred to the Financial Services Businesses. Consequently, the results of the Financial Services Businesses for the three and six months ended June 30, 2002 include returns on these assets. A minor portion of the Traditional Participating Products segment consisted of other traditional insurance products that are now included in the Financial Services Businesses and not in the Closed Block Business.

Operating expenses specifically identifiable to a particular segment are allocated to that segment as incurred. Operating expenses not identifiable to a specific segment that are incurred in connection with the generation of segment revenues are generally allocated based upon the segment's historical percentage of general and administrative expenses.

The Investment Management and Advisory Services segment revenues include intersegment revenues of \$103 million and \$97 million for the three months ended June 30, 2002 and 2001, respectively, and intersegment revenues of \$205 million and \$206 million for the six months ended June 30, 2002 and 2001, respectively. The intersegment revenues, which are eliminated in consolidation, primarily consist of asset-based management fees from the businesses of the U.S. Consumer, Employee Benefits and International divisions and the Closed Block Business. Management has determined the intersegment fees for the various asset classes with reference to market rates.

PRUDENTIAL FINANCIAL, INC.

Notes To Unaudited Interim Consolidated Financial Statements

7. SEGMENT INFORMATION (continued)

The summary below reconciles adjusted operating income to income from operations before income taxes for the three and six months ended June 30, 2002 and 2001:

	For the three months ended June 30, 2002					
		Reconciling Items				
	Adjusted Operating Income	Realized Investment Gains (Losses), Net, and Related Adjustments	Charges Related to Realized Gains (Losses), Net	Divested Businesses	Demutualization Costs and Expenses	Income from Operations Before Income Taxes
			(in millions)			
Individual Life Insurance	\$ 130	\$ (24)	\$ —	\$ —	\$ —	\$ 106
Private Client Group	(29)	—	—	—	—	(29)
Retail Investments	(2)	(22)	1	—	—	(23)
Property and Casualty Insurance	18	—	—	—	—	18
Total U.S. Consumer Division	117	(46)	1	—	—	72
Group Insurance	36	(45)	—	—	—	(9)
Other Employee Benefits	58	(131)	5	—	—	(68)
Total Employee Benefits Division	94	(176)	5	—	—	(77)
International Insurance	187	(25)	(10)	—	—	152
International Securities and Investments	(11)	—	—	—	—	(11)
Total International Division	176	(25)	(10)	—	—	141
Investment Management and Advisory Services	33	2	—	—	—	35
Other Asset Management	23	—	—	—	—	23
Total Asset Management Division	56	2	—	—	—	58
Corporate and Other	35	(94)	—	10	—	(49)
Total Financial Services Businesses	\$ 478	\$ (339)	\$ (4)	\$ 10	\$ —	145
Closed Block Business						(254)
Total						\$ (109)

PRUDENTIAL FINANCIAL, INC.

Notes To Unaudited Interim Consolidated Financial Statements

7. SEGMENT INFORMATION (continued)

For the three months ended June 30, 2001						
	Adjusted Operating Income	Reconciling Items				Income from Operations Before Income Taxes
		Realized Investment Gains (Losses), Net, and Related Adjustments	Charges Related to Realized Gains (Losses), Net	Divested Businesses	Demutualization Costs and Expenses	
			(in millions)			
Individual Life Insurance	\$ 87	\$ (4)	\$ —	\$ —	\$ —	\$ 83
Private Client Group	(98)	—	—	—	—	(98)
Retail Investments	60	(9)	(2)	—	—	49
Property and Casualty Insurance	33	(3)	—	—	—	30
Total U.S. Consumer Division	82	(16)	(2)	—	—	64
Group Insurance	9	8	—	—	—	17
Other Employee Benefits	43	(35)	(2)	—	—	6
Total Employee Benefits Division	52	(27)	(2)	—	—	23
International Insurance	142	36	(3)	—	—	175
International Securities and Investments	(22)	—	—	—	—	(22)
Total International Division	120	36	(3)	—	—	153
Investment Management and Advisory Services	23	(10)	—	—	—	13
Other Asset Management	9	—	—	—	—	9
Total Asset Management Division	32	(10)	—	—	—	22
Corporate and Other	75	99	—	(60)	(117)	(3)
Total Financial Services Businesses	\$ 361	\$ 82	\$ (7)	\$ (60)	\$ (117)	259
Closed Block Business						(103)
Total						\$ 156

PRUDENTIAL FINANCIAL, INC.

Notes To Unaudited Interim Consolidated Financial Statements

7. SEGMENT INFORMATION (continued)

For the six months ended June 30, 2002						
	Adjusted Operating Income	Reconciling Items				Income from Operations Before Income Taxes
		Realized Investment Gains (Losses), Net, and Related Adjustments	Charges Related to Realized Gains (Losses), Net	Divested Businesses	Demutualization Costs and Expenses	
			(in millions)			
Individual Life Insurance	\$ 247	\$ (29)	\$ —	\$ —	\$ —	\$ 218
Private Client Group	(48)	(1)	—	—	—	(49)
Retail Investments	49	(36)	2	—	—	15
Property and Casualty Insurance	40	1	—	—	—	41
Total U.S. Consumer Division	288	(65)	2	—	—	225
Group Insurance	73	(48)	—	—	—	25
Other Employee Benefits	87	(161)	8	—	—	(66)
Total Employee Benefits Division	160	(209)	8	—	—	(41)
International Insurance	391	(111)	(9)	—	—	271
International Securities and Investments	(15)	—	—	—	—	(15)
Total International Division	376	(111)	(9)	—	—	256
Investment Management and Advisory Services	72	61	—	—	—	133
Other Asset Management	47	—	—	—	—	47
Total Asset Management Division	119	61	—	—	—	180
Corporate and Other	58	(116)	—	2	—	(56)
Total Financial Services Businesses	\$ 1,001	\$ (440)	\$ 1	\$ 2	\$ —	564
Closed Block Business						(429)
Total						\$ 135

PRUDENTIAL FINANCIAL, INC.

Notes To Unaudited Interim Consolidated Financial Statements

7. SEGMENT INFORMATION (continued)

	For the six months ended June 30, 2001					
	Reconciling Items					
	Adjusted Operating Income	Realized Investment Gains (Losses), Net, and Related Adjustments	Charges Related to Realized Gains (Losses), Net	Divested Businesses	Demutualization Costs and Expenses	Income from Operations Before Income Taxes
	(in millions)					
Individual Life Insurance	\$ 166	\$ —	\$ —	\$ —	\$ —	\$ 166
Private Client Group	(104)	(1)	—	—	—	(105)
Retail Investments	121	(2)	(4)	—	—	115
Property and Casualty Insurance	93	16	—	—	—	109
Total U.S. Consumer Division	276	13	(4)	—	—	285
Group Insurance	56	34	—	—	—	90
Other Employee Benefits	100	34	(4)	—	—	130
Total Employee Benefits Division	156	68	(4)	—	—	220
International Insurance	237	42	(3)	—	—	276
International Securities and Investments	(19)	—	—	—	—	(19)
Total International Division	218	42	(3)	—	—	257
Investment Management and Advisory Services	57	(9)	—	—	—	48
Other Asset Management	53	—	—	—	—	53
Total Asset Management Division	110	(9)	—	—	—	101
Corporate and Other	74	215	—	(82)	(162)	45
Total Financial Services Businesses	\$ 834	\$ 329	\$ (11)	\$ (82)	\$ (162)	908
Closed Block Business						(29)
Total						\$ 879

PRUDENTIAL FINANCIAL, INC.

Notes To Unaudited Interim Consolidated Financial Statements

7. SEGMENT INFORMATION (continued)

The summary below presents revenues for the Company's reportable segments for the three and six months ended June 30, 2002 and 2001:

	For the three months ended June 30,		For the six months ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Financial Services Businesses revenues, adjusted operating income basis:				
Individual Life Insurance	\$ 455	\$ 478	\$ 898	\$ 945
Private Client Group	521	556	1,048	1,162
Retail Investments	345	370	685	756
Property and Casualty Insurance	561	508	1,092	997
Total U.S. Consumer Division	1,882	1,912	3,723	3,860
Group Insurance	899	796	1,789	1,564
Other Employee Benefits	698	675	1,332	1,368
Total Employee Benefits Division	1,597	1,471	3,121	2,932
International Insurance	1,248	1,054	2,497	1,575
International Securities and Investments	134	137	271	288
Total International Division	1,382	1,191	2,768	1,863
Investment Management and Advisory Services	199	209	397	414
Other Asset Management	100	101	193	225
Total Asset Management Division	299	310	590	639
Corporate and Other	(1)	129	13	127
Total	5,159	5,013	10,215	9,421
Items excluded from adjusted operating income:				
Realized investment gains (losses), net, and related adjustments	(339)	82	(440)	329
Revenues from divested businesses	22	(13)	4	(5)
Total Financial Services Businesses	4,842	5,082	9,779	9,745
Closed Block Business	1,826	2,086	3,603	4,170
Total per Consolidated Financial Statements	\$ 6,668	\$ 7,168	\$ 13,382	\$ 13,915

8. CONTINGENCIES AND LITIGATION

Contingencies

On September 19, 2000, the Company sold Gibraltar Casualty Company ("Gibraltar Casualty"), a subsidiary engaged in the commercial property and casualty insurance business, to Everest Re Group, Ltd. ("Everest"). Upon closing of the sale, the Company entered into a stop-loss reinsurance agreement with Everest whereby the Company will reinsure Everest for up to 80% of the first \$200 million of any adverse loss development in excess of Gibraltar Casualty's carried reserves as of the closing of the sale. As of June 30, 2002, no liability has been recorded in connection with this agreement.

PRUDENTIAL FINANCIAL, INC.

Notes To Unaudited Interim Consolidated Financial Statements

8. CONTINGENCIES AND LITIGATION (continued)

The Company's property and casualty operations are subject to rate and other laws and regulations covering a range of trade and claim settlement practices. State insurance regulatory authorities have broad discretion in approving an insurer's proposed rates. A significant portion of the Company's automobile insurance is written in the state of New Jersey. Under certain circumstances, New Jersey insurance laws require an insurer to provide a refund or credit to policyholders based upon the profits earned on automobile insurance.

On an ongoing basis, our internal supervisory and control functions review the quality of our sales, marketing and other customer interface procedures and practices and may recommend modifications or enhancements. In certain cases, if appropriate, we may offer customers remediation and may incur charges, including the cost of such remediation, administrative costs and regulatory fines.

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

The Financial Services Businesses will bear any expenses and liabilities from litigation affecting the Closed Block policies as well as the consequences of certain adverse tax determinations.

Litigation

The Company is subject to legal and regulatory actions in the ordinary course of its businesses. Pending legal and regulatory actions include proceedings relating to aspects of our businesses and operations that are specific to the Company and proceedings that are typical of the businesses in which the Company operates, including in both cases businesses that have either been divested or placed in wind-down status. Some of these proceedings have been brought on behalf of various alleged classes of complainants. In certain of these matters, the plaintiffs are seeking large and/or indeterminate amounts, including punitive or exemplary damages.

In particular, the Company has been subject to substantial regulatory actions and civil litigation involving individual life insurance sales practices. In 1996, the Company entered into settlement agreements with relevant insurance regulatory authorities and plaintiffs in the principal life insurance sales practices class action lawsuit covering policyholders of individual permanent life insurance policies issued in the United States from 1982 to 1995. Pursuant to the settlements, the Company agreed to various changes to its sales and business practices controls, to a series of fines, and to provide specific forms of relief to eligible class members. Virtually all claims by class members filed in connection with the settlements have been resolved and virtually all aspects of the remediation program have been satisfied. While the approval of the class action settlement is now final, the Company remains subject to oversight and review by insurance regulators and other regulatory authorities with respect to its sales practices and the conduct of the remediation program. The U.S. District Court has also retained jurisdiction as to all matters relating to the administration, consummation, enforcement and interpretation of the settlements.

As of June 30, 2002, the Company remained a party to approximately 40 individual sales practices actions filed by policyholders who "opted out" of the class action settlement relating to permanent life insurance policies the Company issued in the United States between 1982 and 1995. In addition, there were 17 sales practices actions pending that were filed by policyholders who were members of the class and who failed to "opt out" of the class action settlement. The Company believes that those actions are governed by the class settlement release

PRUDENTIAL FINANCIAL, INC.

Notes To Unaudited Interim Consolidated Financial Statements

8. CONTINGENCIES AND LITIGATION *(continued)*

and expects them to be enjoined and/or dismissed. Additional suits may be filed by class members who “opted out” of the class settlement or who failed to “opt out” but nevertheless seek to proceed against the Company. A number of the plaintiffs in these cases seek large and/or indeterminate amounts, including punitive or exemplary damages. Some of these actions are brought on behalf of multiple plaintiffs. It is possible that substantial punitive damages might be awarded in any of these actions and particularly in an action involving multiple plaintiffs.

The Company believes that its reserves related to sales practices, as of June 30, 2002, are adequate. No incremental provisions were recorded in the first six months of 2002 or 2001.

The Company retained certain liabilities for litigation associated with its discontinued healthcare business, including purported class actions challenging practices of the Company’s former managed care operations. A number of class actions brought by subscribers and healthcare providers were consolidated for pre-trial purposes in the United States District Court for the Southern District of Florida in a consolidated proceeding captioned *In Re Managed Care Litigation*. These class actions allege, among other things, misrepresentation of the level of services and quality of care, failure to disclose financial incentive agreements with physicians, interference with the physician-patient relationship, breach of contract and fiduciary duty, violations of ERISA, violations of and conspiracy to violate RICO, deprivation of plaintiffs’ rights to the delivery of honest medical services and industry-wide conspiracy to defraud physicians by failing to pay under provider agreements and by unlawfully coercing providers to enter into agreements with unfair and unreasonable terms. The remedies sought include unspecified damages, restitution, disgorgement of profits, treble damages, punitive damages and injunctive relief.

A joint venture in which an affiliate of Prudential Securities Group Inc. is a participant brought an arbitration claim against Kyocera Corporation alleging, among other things, claims of breach of contract relating to the manufacture and distribution of computer disk drives. The arbitration panel decided in favor of the claimants. The Company’s share of damages, with interest, would exceed \$300 million. A federal district court in the Northern District of California has confirmed the award and entered judgment in favor of the claimants. On July 29, 2002, the United States Court of Appeals for the Ninth Circuit affirmed the judgment in favor of the claimants. As with any litigation, the outcome remains uncertain until all appeals have been concluded or the time to appeal has expired and, accordingly, the Company has not included the award in its results of operations.

The Company’s litigation is subject to many uncertainties, and given its complexity and scope, the outcomes cannot be predicted. It is possible that the results of operations or the cash flow of the Company in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation and regulatory matters depending, in part, upon the results of operations or cash flow for such period. Management believes, however, that the ultimate outcome of all pending litigation and regulatory matters, after consideration of applicable reserves, should not have a material adverse effect on the Company’s financial position.

9. SUBSEQUENT EVENTS

In August 2002, the Company announced organizational changes that will reduce the Company’s operating divisions from four to three, consisting of Insurance, Investments and International Insurance and Investments. The businesses that comprise the existing Employee Benefits division will be included in the other divisions. The Group Insurance segment will be included in the Insurance division, and substantially all of the Other Employee Benefits segment will be included in the Investments division. In addition, the existing Retail Investments segment will be redeployed into the Insurance and Investments divisions. The Company will begin reporting segment results based on the new structure commencing with its third quarter 2002 financial results.

[Table of Contents](#)
PRUDENTIAL FINANCIAL, INC.
UNAUDITED INTERIM SUPPLEMENTAL COMBINING STATEMENT OF FINANCIAL POSITION
JUNE 30, 2002
(in millions)

	Financial Services Businesses	Closed Block Business	Consolidated
ASSETS			
Fixed maturities:			
Available for sale, at fair value	\$ 72,700	\$ 44,082	\$ 116,782
Held to maturity, at amortized cost	2,268	—	2,268
Trading account assets, at fair value	6,038	—	6,038
Equity securities, available for sale, at fair value	1,868	1,328	3,196
Commercial loans	12,752	6,772	19,524
Policy loans	2,982	5,725	8,707
Securities purchased under agreements to resell	5,136	—	5,136
Cash collateral for borrowed securities	5,530	—	5,530
Other long-term investments	4,216	1,037	5,253
Short-term investments	2,848	2,366	5,214
Total investments	116,338	61,310	177,648
Cash and cash equivalents	8,344	2,993	11,337
Accrued investment income	1,069	792	1,861
Broker-dealer related receivables	7,091	—	7,091
Deferred policy acquisition costs	5,859	1,253	7,112
Other assets	16,213	1,341	17,554
Separate account assets	75,101	—	75,101
TOTAL ASSETS	\$ 230,015	\$ 67,689	\$ 297,704
LIABILITIES AND ATTRIBUTED EQUITY			
LIABILITIES			
Future policy benefits	\$ 40,319	\$ 47,791	\$ 88,110
Policyholders' account balances	38,916	5,447	44,363
Unpaid claims and claim adjustment expenses	3,352	—	3,352
Policyholders' dividends	954	1,178	2,132
Securities sold under agreements to repurchase	10,557	5,393	15,950
Cash collateral for loaned securities	8,959	1,588	10,547
Income taxes payable	1,609	21	1,630
Broker-dealer related payables	6,076	—	6,076
Securities sold but not yet purchased	3,185	—	3,185
Short-term debt	4,221	—	4,221
Long-term debt	3,003	1,750	4,753
Other liabilities	12,815	3,678	16,493
Separate account liabilities	75,101	—	75,101
Total liabilities	209,067	66,846	275,913
Guaranteed minority interest in Trust holding solely debentures of Parent	690	—	690
COMMITMENTS AND CONTINGENCIES			
ATTRIBUTED EQUITY			
Accumulated other comprehensive income	937	602	1,539
Other attributed equity	19,321	241	19,562
Total attributed equity	20,258	843	21,101
TOTAL LIABILITIES AND ATTRIBUTED EQUITY	\$ 230,015	\$ 67,689	\$ 297,704

See Notes to Unaudited Interim Supplemental Combining Financial Information

[Table of Contents](#)
PRUDENTIAL FINANCIAL, INC.
UNAUDITED INTERIM SUPPLEMENTAL COMBINING STATEMENT OF OPERATIONS
Three Months Ended June 30, 2002
(in millions, except per share amounts)

	Financial Services Businesses	Closed Block Business	Consolidated
REVENUES			
Premiums	\$ 2,334	\$ 1,084	\$ 3,418
Policy charges and fee income	412	—	412
Net investment income	1,374	902	2,276
Realized investment gains (losses), net	(313)	(177)	(490)
Commissions and other income	1,035	17	1,052
Total revenues	4,842	1,826	6,668
BENEFITS AND EXPENSES			
Policyholders' benefits	2,283	1,159	3,442
Interest credited to policyholders' account balances	415	34	449
Dividends to policyholders	43	648	691
General and administrative expenses	1,956	239	2,195
Total benefits and expenses	4,697	2,080	6,777
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	145	(254)	(109)
Income tax expense (benefit)	50	(91)	(41)
NET INCOME (LOSS)	\$ 95	\$ (163)	\$ (68)
Direct equity adjustment	\$ 14	\$ (14)	
NET INCOME (LOSS) AVAILABLE TO HOLDERS OF COMMON STOCK AND CLASS B STOCK (See Note 6)	\$ 109	\$ (177)	
EARNINGS PER SHARE			
Financial Services Businesses			
Net income per share of Common Stock—basic and diluted	\$ 0.19		\$ 0.19
Closed Block Business			
Net loss per share of Class B Stock—basic and diluted		\$ (88.50)	\$ (88.50)
RECONCILIATION OF NET INCOME TO ADJUSTED OPERATING INCOME			
Net income	\$ 95		
Reconciling items:			
Realized investment losses, net of gains and related charges and adjustments	343		
Divested businesses	(10)		
Total reconciling items	333		
Income taxes	124		
Total reconciling items to calculate adjusted operating income, net of tax	209		
ADJUSTED OPERATING INCOME AFTER INCOME TAXES	\$ 304		

See Notes to Unaudited Interim Supplemental Combining Financial Information

[Table of Contents](#)
PRUDENTIAL FINANCIAL, INC.
UNAUDITED INTERIM SUPPLEMENTAL COMBINING STATEMENT OF OPERATIONS
SIX MONTHS ENDED JUNE 30, 2002
(in millions, except per share amounts)

	Financial Services Businesses	Closed Block Business	Consolidated
REVENUES			
Premiums	\$ 4,612	\$ 2,028	\$ 6,640
Policy charges and fee income	846	—	846
Net investment income	2,625	1,793	4,418
Realized investment gains (losses), net	(383)	(256)	(639)
Commissions and other income	2,079	38	2,117
Total revenues	9,779	3,603	13,382
BENEFITS AND EXPENSES			
Policyholders' benefits	4,456	2,189	6,645
Interest credited to policyholders' account balances	829	68	897
Dividends to policyholders	73	1,291	1,364
General and administrative expenses	3,857	484	4,341
Total benefits and expenses	9,215	4,032	13,247
INCOME (LOSS) FROM OPERATIONS BEFORE INCOME TAXES	564	(429)	135
Income tax expense (benefit)	206	(156)	50
NET INCOME (LOSS)	\$ 358	\$ (273)	\$ 85
Direct equity adjustment	\$ 21	\$ (21)	
NET INCOME (LOSS) AVAILABLE TO HOLDERS OF COMMON STOCK AND CLASS B STOCK (See Note 6)	\$ 379	\$ (294)	
EARNINGS PER SHARE			
Financial Services Businesses			
Net income per share of Common Stock—basic and diluted	\$ 0.65		\$ 0.65
Closed Block Business			
Net loss per share of Class B Stock—basic and diluted		\$ (147.00)	\$ (147.00)
RECONCILIATION OF NET INCOME TO ADJUSTED OPERATING INCOME			
Net income	\$ 358		
Reconciling items:			
Realized investment losses, net of gains and related charges and adjustments	439		
Divested businesses	(2)		
Total reconciling items	437		
Income taxes	159		
Total reconciling items to calculate adjusted operating income, net of tax	278		
ADJUSTED OPERATING INCOME AFTER INCOME TAXES	\$ 636		

See Notes to Unaudited Interim Supplemental Combining Financial Information

PRUDENTIAL FINANCIAL, INC.

Notes To Unaudited Interim Supplemental Combining Financial Information

1. BASIS OF PRESENTATION

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

In managing its business, the Company analyzes the operating performance of the Financial Services Businesses and individual segments within the Financial Services Businesses using “adjusted operating income,” which is a non-GAAP measure. Adjusted operating income is calculated by adjusting income from operations before income taxes to exclude certain items. The items excluded are realized investment gains, net of losses and related charges and adjustments; demutualization costs and expenses; and the gains, losses and contribution to income/loss of divested businesses which have been sold or exited but do not qualify for “discontinued operations” treatment under GAAP. For a complete description of the items excluded from income from operations for determination of adjusted operating income, see Note 7 to the Unaudited Interim Consolidated Financial Statements.

2. DEMUTUALIZATION AND RECAPITALIZATION

On the date of demutualization, the Company issued two classes of common stock. The Common Stock reflects the performance of the Financial Services Businesses, and the Class B Stock reflects the performance of the Closed Block Business. Upon the establishment of the Closed Block Business, \$5.6 billion of net assets previously associated with the Traditional Participating Products segment were transferred to the Financial Services Businesses. Concurrent with the demutualization, Prudential Holdings, LLC, a wholly owned subsidiary of Prudential Financial, Inc., issued \$1.75 billion in senior secured notes (the “IHC debt”), of which net proceeds of \$1.66 billion were allocated to the Financial Services Businesses. The IHC debt is serviced by the cash flows of the Closed Block Business and the results of the Closed Block Business reflect interest expense associated with the IHC debt.

During the first quarter of 2002, the Company completed a GAAP and statutory reconciliation of the assets and liabilities allocated to the Closed Block and the amounts reported as Closed Block assets and liabilities at December 31, 2001. As a result of this reconciliation, it was determined that net assets of \$94 million on a GAAP basis that had been included in the Financial Services Businesses should have been included in the Closed Block. During the first quarter of 2002, such assets were reclassified to the Closed Block from the Financial Services Businesses. Consequently, the total attributed equity of the Closed Block Business increased by the same amount. The statutory amounts were unaffected.

3. ALLOCATION OF RESULTS

This supplemental combining financial information reflects the assets, liabilities, revenues and expenses directly attributable to the Financial Services Businesses and the Closed Block Business, as well as allocations deemed reasonable by management in order to fairly present the financial position and results of operations of each business on a stand alone basis. While management considers the allocations utilized to be reasonable, management has the discretion to make operational and financial decisions that may affect the allocation

PRUDENTIAL FINANCIAL, INC.

Notes To Unaudited Interim Supplemental Combining Financial Information

3. ALLOCATION OF RESULTS *(continued)*

methods and resulting assets, liabilities, revenues and expenses of each business. In addition, management has limited discretion over accounting policies and the appropriate allocation of earnings between the two businesses. The Company has agreements which provide that, in most instances, the Company may not change the allocation methodology or accounting policies for the allocation of earnings between the Financial Services Businesses and Closed Block Business without the prior consent of the Class B Stock investors or IHC debt bond insurer.

General corporate overhead not directly attributable to a specific business that has been incurred in connection with the generation of the businesses revenues is generally allocated based on the historical general and administrative expenses of each business as a percentage of the total for the Company.

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

4. STOCKHOLDERS' EQUITY

The declaration and payment of dividends on the Common Stock depends primarily upon the financial condition, results of operations, cash requirements, future prospects and other factors relating to the Financial Services Businesses. Dividends declared and paid on the Common Stock do not depend upon and are not affected by the financial performance of the Closed Block Business, unless the Closed Block Business is in financial distress. Dividends declared and paid on the Common Stock are not affected by decisions with respect to dividend payments on the Class B Stock except as indicated in the following paragraph. Furthermore, dividends on the Common Stock are limited to both the amount that is legally available for payment under New Jersey corporate law if the Financial Services Businesses were treated as a separate corporation thereunder and the amount that is legally available for payment under New Jersey corporate law on a consolidated basis after taking into account dividends on the Class B Stock.

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

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

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

PRUDENTIAL FINANCIAL, INC.

Notes To Unaudited Interim Supplemental Combining Financial Information

5. CONTINGENCIES

The Financial Services Businesses will bear any expenses and liabilities from litigation affecting the Closed Block policies as well as the consequences of certain adverse tax determinations.

6. EARNINGS PER SHARE AND DIRECT EQUITY ADJUSTMENTS

The Company has outstanding two separate classes of common stock. The Common Stock reflects the performance of the Financial Services Businesses, and the Class B Stock reflects the performance of the Closed Block Business. Accordingly, earnings per share is calculated separately for each of these two classes of common stock. Earnings per share amounts are based on the earnings available to common stockholders for the period subsequent to the date of demutualization.

Net income for the Financial Services Businesses and the Closed Block Business is determined in accordance with GAAP and includes general and administrative expenses charged to each of the respective businesses based on the Company's methodology for the allocation of such expenses. Cash flows between the Financial Services Businesses and the Closed Block Business related to administrative expenses are determined by a policy servicing fee arrangement that is based upon insurance in force and statutory cash premiums. To the extent reported administrative expenses vary from these cash flow amounts, the differences are recorded, on an after tax basis, as direct equity adjustments to the equity balances of the businesses. The direct equity adjustments are used to modify net income to determine the earnings available to each of the classes of common stock for earnings per share purposes. For the three months ended June 30, 2002, the direct equity adjustment resulted in an increase of \$14 million in the net income attributable to the Financial Services Businesses applicable to holders of Common Stock for earnings per share purposes and an increase of \$14 million in the net loss attributable to the Closed Block Business applicable to holders of Class B Stock for earnings per share purposes. For the six months ended June 30, 2002, the direct equity adjustment resulted in an increase of \$21 million in the net income attributable to the Financial Services Businesses applicable to holders of Common Stock for earnings per share purposes and an increase of \$21 million in the net loss attributable to the Closed Block Business applicable to holders of Class B Stock for earnings per share purposes.

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 June 30, 2002, compared with December 31, 2001, and its consolidated results of operations for the three and six month periods ended June 30, 2002 and June 30, 2001. You should read the following analysis of our consolidated financial condition and results of operations in conjunction with the Company's MD&A and audited Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001, and Unaudited Interim Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q. Effective on the date of demutualization, the consolidated financial statements of Prudential Insurance for financial statement periods prior to the demutualization became the historical Consolidated Financial Statements of Prudential Financial. The Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Demutualization and Related Transactions

On the date of demutualization, Prudential Insurance converted from a mutual life insurance company owned by its policyholders to a stock life insurance company and became an indirect, wholly owned subsidiary of Prudential Financial. On that date, eligible policyholders, as defined in the Plan of Reorganization, received shares of Prudential Financial's Common Stock or the right to receive cash or policy credits, which are increases in policy values or increases in other policy benefits, upon the extinguishment of all membership interests in Prudential Insurance. In addition, two closed blocks, as discussed below, were established for the benefit of certain participating individual life insurance policies and annuities issued by Prudential Insurance and its Canadian branch.

On the date of demutualization, Prudential Financial completed an initial public offering of 110.0 million shares of its Common Stock at an initial public offering price of \$27.50 per share, and on December 21, 2001, Prudential Financial issued an additional 16.5 million shares of Common Stock as a result of the exercise of the over-allotment option granted to underwriters in the initial public offering. Also on the date of demutualization, Prudential Financial completed the sale, through a private placement, of 2.0 million shares of Class B Stock, a separate class of common stock, at a price of \$87.50 per share. The Common Stock reflects the performance of the Financial Services Businesses, and the Class B Stock reflects the performance of the Closed Block Business. Collectively, the Financial Services Businesses and the Closed Block Business are referred to as the "Businesses." In addition, on the date of demutualization, Prudential Financial issued 13.8 million 6.75% equity security units for gross proceeds of \$690 million, including as a component thereof redeemable capital securities of Prudential Financial Capital Trust I, a statutory business trust that is consolidated in our financial statements. Furthermore, Prudential Holdings, LLC ("PHLLC"), a wholly owned subsidiary of Prudential Financial that owns the capital stock of Prudential Insurance, issued \$1.75 billion in senior secured notes (the "IHC debt"), a portion of which were insured by a bond insurer.

Concurrent with the demutualization, Prudential Insurance completed a corporate reorganization whereby various subsidiaries (and certain related assets and liabilities) of Prudential Insurance were dividdened (or "destacked") so that they became wholly owned subsidiaries of Prudential Financial rather than of Prudential Insurance. The subsidiaries distributed by Prudential Insurance to Prudential Financial included its property and casualty insurance companies, its principal securities brokerage companies, its international insurance companies, its principal asset management operations, its international securities and investments operations, its domestic banking operations and its residential real estate brokerage franchise and relocation services operations.

The Plan of Reorganization required us to establish and operate a mechanism known 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 policies included in the Closed Block by allocating assets that will be used for payment of benefits, including policyholder dividends, on these policies. See Note 3 to the Unaudited Interim

[Table of Contents](#)

Consolidated Financial Statements and “—Overview—Financial Services Businesses and Closed Block Business” for more information on the Closed Block.

On January 22, 2002, Prudential Financial’s Board of Directors authorized a stock repurchase program, with no termination date, under which the Company is authorized to purchase up to \$1 billion of its outstanding Common Stock. The timing and amount of any repurchases under this authorization will be determined by management based on market conditions and other considerations, and such repurchases may be effected in the open market or through negotiated transactions. As of June 30, 2002, 3.2 million shares of Common Stock were repurchased at a total cost of \$106 million, including 1.6 million shares that were immediately reissued directly to a certain Company deferred compensation plan. In July 2002, 2.6 million additional shares of Common Stock were purchased at a cost of \$82 million for total purchases of 5.8 million shares of Common Stock at a total cost of \$188 million through July 31, 2002. Following these transactions, there is \$868 million remaining under the \$1 billion share repurchase authorization as of July 31, 2002.

Overview

Financial Services Businesses and Closed Block Business

Financial Services Businesses

We refer to the businesses in our four operating divisions and our Corporate and Other operations, collectively, as our Financial Services Businesses. The U.S. Consumer division consists of our Individual Life Insurance, Private Client Group, Retail Investments and Property and Casualty Insurance segments. The Employee Benefits division consists of our Group Insurance and Other Employee Benefits segments. The International division consists of our International Insurance and International Securities and Investments segments. The Asset Management division consists of our Investment Management and Advisory Services and Other Asset Management segments. We also have Corporate and Other operations, which contain corporate items and initiatives that are not allocated to the business segments. Corporate and Other operations also include businesses that we have divested or placed in wind-down status. The principal corporate items are the expense of corporate management and earnings on equity not allocated to our businesses.

We attribute financing costs to each segment based on its use of financing and reflect financing costs in each segment’s results. The net investment income of each segment includes earnings on the amount of equity which management believes is necessary to support the risks of that segment.

Closed Block Business

Effective with the date of demutualization, we established the Closed Block Business. For periods prior to the date of demutualization, the results of the Closed Block Business are those of our former Traditional Participating Products segment. Upon the establishment of the Closed Block Business, we transferred \$5.6 billion of net assets previously associated with the Traditional Participating Products segment to the Financial Services Businesses. This capital was initially allocated to our Corporate and Other operations as of the date of demutualization. As a result, income from operations of the Closed Block Business for the three and six months ended June 30, 2002 does not include returns on these net assets, which were historically included in income from operations of the Traditional Participating Products segment.

In connection with the demutualization, we ceased offering domestic participating products. The liabilities for our individual in force participating products were segregated, together with assets which will be used exclusively for the payment of benefits and policyholder dividends, expenses and taxes with respect to these products, in a regulatory mechanism referred to as the “Closed Block.” We selected the amount and type of Closed Block assets and Closed Block liabilities included in the Closed Block 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

[Table of Contents](#)

the Closed Block to fund payments of all expenses, taxes and policyholder benefits to be paid to, and the reasonable dividend expectations of, policyholders 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 policies included within the Closed Block. 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 expect the proportion of our business represented by the Closed Block to decline as we grow other businesses. A minor portion of our former Traditional Participating Products segment, which included the policies now included in the Closed Block Business prior to our demutualization, consisted of other traditional insurance products that were not included in the Closed Block.

The Closed Block Business consists principally of the Closed Block, assets held outside the Closed Block that Prudential Insurance needs to hold 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. We allocated the net proceeds from the issuance 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, 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 report results of the Closed Block Business, including interest expenses associated with the IHC debt.

Consolidated Results of Operations

In managing our business, we analyze our operating performance by separately considering our Financial Services Businesses and our Closed Block Business. In addition, for the Financial Services Businesses, we analyze our operating performance using a non-GAAP measure we call “adjusted operating income.” Prior to the date of demutualization, we also analyzed results of our Traditional Participating Products segment based on this non-GAAP measure. Beginning in 2002, management no longer considers adjusted operating income to assess operating performance of the Closed Block Business. Consequently, results of the Closed Block Business for all periods are presented only in accordance with GAAP. We calculate adjusted operating income for the Financial Services Businesses by adjusting our income from operations before income taxes to exclude the following items:

- realized investment gains, net of losses and related charges and adjustments;
- sales practices remedies and costs;
- the gains, losses and contribution to income/loss of divested businesses that we have sold or exited but that did not qualify for “discontinued operations” accounting treatment under GAAP; and
- demutualization costs and expenses.

Wind-down businesses that we have not divested remain in adjusted operating income.

The excluded items are important to an understanding of our overall results of operations. You should not view adjusted operating income as a substitute for net income determined in accordance with GAAP, and you should note that 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 the understanding of our results of operations by highlighting the results from ongoing operations and the underlying profitability of our businesses. We exclude realized investment gains, net of losses and related charges and adjustments, from adjusted operating income because the timing of transactions resulting in recognition of gains or losses is largely at our discretion and the amount of these gains or losses is heavily influenced by and fluctuates in part according to the availability of market opportunities. Including the fluctuating effects of these transactions could distort trends in the underlying profitability of our businesses. We

[Table of Contents](#)

exclude sales practices remedies and costs because they relate to a substantial and identifiable non-recurring event. For the six months ended June 30, 2002 and 2001, the Company had no expense for sales practices remedies and costs. We exclude the gains and losses and contribution to income/loss of divested businesses because, as a result of our decision to dispose of these businesses, these results are not relevant to the profitability of our ongoing operations and could distort the trends associated with our ongoing operations. We also exclude demutualization costs and expenses because they are directly related to our demutualization and could distort the trends associated with our business operations.

In the discussion below of our consolidated results of operations, we separately discuss income from operations before income taxes and adjusted operating income for the Financial Services Businesses, as well as the divisions thereof and Corporate and Other operations. We also discuss the items excluded from adjusted operating income for the periods presented, *i.e.*, realized investment gains, demutualization costs and expenses and divested businesses, as well as taxes. Realized investment gains and losses are allocated between the Financial Services Businesses and the Closed Block Business. Results from divested businesses are allocated entirely to the Financial Services Businesses. For purposes of analyzing our results, taxes are not allocated to our segments or divisions. Following this consolidated discussion, you will find a detailed discussion of our results of operations by division and by the segments of each division, as well as the Closed Block Business.

Net Income and Adjusted Operating Income

Consolidated Net Income

2002 to 2001 Three Month Comparison. On a consolidated basis, net income decreased \$263 million from \$195 million in the second quarter of 2001 to a net loss of \$68 million in the second quarter of 2002. The decrease came primarily from a \$265 million decline in income from operations before income taxes.

The \$265 million decrease in income from operations before income taxes resulted from a \$114 million decrease from the Financial Services Businesses and a \$151 million decrease from the Closed Block Business. For a discussion of the Closed Block Business, see “—Results of Operations for Financial Services Business by Division and Closed Block Business—Closed Block Business.” The \$114 million decrease from the Financial Services Businesses reflects a \$100 million decline from our Employee Benefits division, a \$46 million decline from our Corporate and Other operations and a \$12 million decline in our International division, partially offset by increases of \$36 million from our Asset Management division and \$8 million from our U.S. Consumer division.

The \$100 million decline from our Employee Benefits division came primarily from an increase in realized investment losses, net of related charges. The \$46 million decrease from our Corporate and Other operations came primarily from a decrease in realized investment gains, net of losses and related adjustments, partially offset by an increase in income from divested businesses, as well as demutualization related expenses reflected in the 2001 period. The \$36 million increase from our Asset Management division came from increases in adjusted operating income and realized investment gains, net of losses. The \$12 million decrease from the International division came from a decrease in realized investment gains, net of losses and related charges, which more than offset an increase in adjusted operating income that came primarily from a greater contribution from Gibraltar Life, for which the year-ago period includes its initial two months of results. The \$8 million increase from our U.S. Consumer division was due primarily to an increase in adjusted operating income, which was partially offset by an increase in realized investment losses, net of gains and related charges.

2002 to 2001 Six Month Comparison. On a consolidated basis, net income decreased \$547 million from \$632 million in the first six months of 2001 to \$85 million in the first six months of 2002. The decrease reflects a \$744 million decline in income from operations before income taxes, partially offset by a \$197 million decrease in income taxes as discussed below under “—Taxes.”

[Table of Contents](#)

The \$744 million decrease in income from operations before income taxes resulted from a \$344 million decrease from the Financial Services Businesses and a \$400 million decrease from the Closed Block Business. For a discussion of the Closed Block Business, see “—Results of Operations for Financial Services Business by Division and Closed Block Business—Closed Block Business.” The \$344 million decrease from the Financial Services Businesses reflects a \$261 million decline from our Employee Benefits division, a \$101 million decline from our Corporate and Other operations and a \$60 million decline in our U.S. Consumer division, partially offset by an increase of \$79 million from our Asset Management division. Income from operations before income taxes from our International division, for which the 2001 period included Gibraltar Life’s initial two months of results, were essentially unchanged in the first six months of 2002 from the year-ago period.

The \$261 million decline from our Employee Benefits division and the \$60 million decline from our U.S. Consumer division came primarily from decreases in realized investment gains, net of losses and related charges. The \$101 million decrease in our Corporate and Other operations came primarily from a decrease in realized investment gains, net of losses and related adjustments, partially offset by an increase in income from divested businesses, as well as demutualization related expenses reflected in the 2001 period. The \$79 million increase from our Asset Management division came primarily from an increase in realized investment gains, net of losses. Although essentially unchanged from the first six months of 2001, International division results were comprised of an increase in adjusted operating income, reflecting the inclusion of Gibraltar Life’s first two months of results in the year-ago period, offset by a decrease in realized investment gains, net of losses and related charges.

See “—Financial Services Businesses Adjusted Operating Income” below for a discussion of the adjusted operating income results of our divisions and our Corporate and Other operations.

See “—Realized Investment Gains” below for a discussion of realized investment gains, net of losses, and charges and adjustments related to net realized investment gains for the Financial Services Businesses.

Stock Options

The Company has made two grants of stock options since its demutualization, the Associates Grant, a one-time broad-based award of 12.1 million options made in December of 2001, and a general grant to executives (“the Executive Grant”) of 8.5 million options made in June of 2002, primarily as replacement for a portion of long-term cash compensation, which compensation would have been expensed. One third of the option grants vests in each of the first three years. The Company currently accounts for stock options in accordance with Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees,” whereby we do not reflect compensation expense for stock options issued to employees. Under existing accounting guidance, if the Company had elected in the current period to account for its stock options under the fair value method of Statement of Financial Accounting Standards No. 123, “Accounting for Stock Based Compensation,” only those costs associated with the Executive Grant would be reflected in net income and earnings per share of Common Stock. The pro forma effect of including the Executive Grant (the fair value of each option was estimated to be \$12.14 at the date of grant) would have been to reduce net income by less than \$1 million for the three and six months ended June 30, 2002, with no impact on earnings per share of Common Stock. The Financial Accounting Standards Board is currently considering a proposal requiring a company’s expense for stock options to include not only options granted in the current year, but also options granted in earlier years. The pro forma effect of including the Associates Grant (the fair value of each option was estimated to be \$8.78 at the date of grant) and the Executive Grant would have been to reduce net income by \$5 million and \$10 million for the three and six months ended June 30, 2002, respectively, with a related reduction in earnings per share of Common Stock of \$.01 and \$.02 for the same periods, respectively.

Financial Services Businesses Adjusted Operating Income

2002 to 2001 Three Month Comparison. Adjusted operating income of our Financial Services Businesses increased \$117 million, or 32%, from the second quarter of 2001 to the second quarter of 2002. The increase

[Table of Contents](#)

came primarily from increases of \$56 million in our International division, \$42 million in our Employee Benefits division, \$35 million in our U.S. Consumer division, and \$24 million in our Asset Management division, partially offset by a decrease of \$40 million from our Corporate and Other operations.

The \$56 million increase in adjusted operating income from our International division came primarily from a \$45 million increase from the International Insurance segment, including an increase of \$42 million from Gibraltar Life including an additional month of earnings as the year-ago period includes its initial two months of results.

2002 to 2001 Six Month Comparison. Adjusted operating income of our Financial Services Businesses increased \$167 million, or 20%, from the first six months of 2001 to the first six months of 2002. The increase came primarily from increases of \$158 million from our International division, \$12 million from our U.S. Consumer division, \$9 million from our Asset Management division, and \$4 million from our Employee Benefits division, partially offset by a decrease of \$16 million in our Corporate and Other operations.

The \$158 million increase in adjusted operating income from our International division came primarily from a \$154 million increase from the International Insurance segment, including a \$146 million contribution from Gibraltar Life.

Realized Investment Gains

Realized investment gains, net of losses, include gains and losses resulting from sales and impairments of fixed income and equity investments, prepayment premiums we receive on private bond issues, and gains and losses in connection with derivative contracts that do not qualify for hedge accounting treatment. We perform impairment reviews on an ongoing basis. The level of 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-related losses through sales of investments pursuant to our credit risk management objectives. We require most issuers of private fixed maturity securities to pay us make-whole yield maintenance payments when they prepay the securities. Prepayment levels are driven by the interest rate environment and other factors not within our control.

We use derivative contracts to hedge the risk that changes in interest rates or foreign currency exchange rates will affect the market value of certain investments. We also 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. The vast majority of these derivative contracts does not qualify for hedge accounting. 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 hedged assets or liabilities the same way. Accordingly, realized investment gains and losses from our hedging activities contribute significantly to fluctuations in net income.

The comparisons below discuss realized investment gains, net of losses and related charges and adjustments. Related charges, which pertain to the Financial Services Businesses and not to the Closed Block Business, pertain to policyholder dividends, deferred policy acquisition costs and reserves for future policy benefits. A percentage of net realized investment gains on specified Gibraltar Life assets is required to be paid as dividends to Gibraltar Life policyholders. See “—Results of Operations for Financial Services Businesses by Division and Closed Block Business” below. We amortize deferred policy acquisition costs for interest sensitive products based on estimated gross profits, which include net realized investment gains on the underlying invested assets, and the related charge for amortization of deferred policy acquisition costs represents the amortization related to net realized investment gains. We adjust the reserves for some of our policies when cash flows related to these policies are affected by net realized investment gains, and the related charge for reserves for future policy benefits represents that adjustment. The changes in these related charges from one period to another may be disproportionate to the changes in realized investment gains, net of losses, because the indicated reserve adjustments relate to realized investment gains, but not losses, evaluated over several periods.

Table of Contents

A portion of realized gains relating to certain derivative results are included in adjusted operating income. Pursuant to a currency hedging program, the Company executes forward sale contracts of the hedged currencies in exchange for U.S. dollars at a specified exchange rate. The maturities of these contracts correspond with the future periods in which the non-U.S. earnings are expected to be generated. These contracts do not qualify for hedge accounting under GAAP. All resulting profits or losses from these forward sale contracts, including mark-to-market adjustments of open contracts as well as periodic settlements, are included in "Realized investment gains (losses), net." When the contracts are terminated in the same period as the expected earnings, the resulting positive or negative cash flow is included in adjusted operating income. In addition, the Company utilizes interest and currency swap contracts to manage interest and currency exchange rate exposures arising from mismatches between assets and liabilities, including duration mismatches. For the swap contracts that do not qualify for hedge accounting treatment, mark-to-market adjustments of open contracts as well as periodic settlements are included in "Realized investment gains (losses), net." Periodic settlements relating to these swap contracts are included in adjusted operating income.

Investment Results

The following tables set forth net realized investment gains (losses), and related charges and adjustments for the Financial Services Businesses and Closed Block Business, and by investment type for each business, for the three and six months ended June 30, 2002 and 2001. As discussed above, related charges and adjustments pertain only to the Financial Services Businesses.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Consolidated:				
Financial Services Businesses ("FSB"):				
Realized investment gains (losses), net	\$ (313)	\$ 89	\$ (383)	\$ 340
Related charges	(4)	(7)	1	(11)
Derivative results included in adjusted operating income	(26)	(7)	(57)	(11)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
FSB realized investment losses, net of gains and related charges and adjustments	(343)	75	(439)	318
Closed Block Business ("CBB") realized investment gains (losses), net	(177)	(114)	(256)	(25)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Consolidated realized investment losses, net of gains and related charges and adjustments	\$ (520)	\$ (39)	\$ (695)	\$ 293
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	(in millions)			
Financial Services Businesses:				
Realized investment gains (losses), net, and related charges and adjustments:				
Fixed maturity investments	\$ (82)	\$ (30)	\$ (190)	\$ 82
Equity securities	11	21	(52)	67
Derivative instruments	(228)	55	(177)	127
Other	(14)	43	36	64
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
FSB realized investment losses, net of gains	(313)	89	(383)	340
Related charges	(4)	(7)	1	(11)
Derivative results included in adjusted operating income	(26)	(7)	(57)	(11)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total FSB realized investment losses, net of gains and related charges and adjustments	\$ (343)	\$ 75	\$ (439)	\$ 318

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Closed Block Business:				
Realized investment gains (losses), net:				
Fixed maturity investments	\$ (77)	\$ (168)	\$ (165)	\$ (90)
Equity securities	5	(22)	14	(62)
Derivative instruments	(114)	70	(113)	125
Other	9	6	8	2
Total CBB realized investment losses, net of gains	\$ (177)	\$ (114)	\$ (256)	\$ (25)

2002 to 2001 Three Month Comparison. Consolidated realized investment losses, net of gains and related charges and adjustments, increased \$481 million, from \$39 million in the second quarter of 2001 to \$520 million in the second quarter of 2002.

The Financial Services Businesses' realized investment losses in the second quarter of 2002, before related charges and adjustments, were \$313 million compared to net gains of \$89 million in the second quarter of 2001. Realized losses in the second quarter of 2002 were driven largely by losses associated with derivative instruments and fixed maturity investments. Net realized losses associated with our derivative instruments, net of related fair value adjustments to fixed maturities that qualify for fair value hedge accounting treatment, were \$228 million in the second quarter of 2002, compared to gains of \$55 million in the second quarter of 2001. Excluding derivative results that are reported in adjusted operating income, derivative losses were \$254 million in the second quarter of 2002 compared to gains of \$48 million in the year-ago quarter. The losses in the second quarter of 2002 were primarily the result of negative mark-to-market adjustments of \$144 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses, driven by the weakening of the U.S. dollar, and losses of \$84 million on treasury futures contracts used to manage the duration of the Company's fixed maturity investment portfolio. Realized losses from non-derivative activity were \$85 million in the 2002 quarter compared to net gains of \$34 million last year. The second quarter of 2002 includes impairments and credit related losses aggregating \$220 million that were offset in part by realized gains and prepayment premiums. Credit related losses during the 2002 second quarter, included realized losses of \$83 million on the disposal of substantially all remaining WorldCom holdings.

Realized investment losses related to the Closed Block Business increased \$63 million, from \$114 million in the second quarter of 2001 to \$177 million in the second quarter of 2002. The increase was attributable to derivative losses of \$114 million in the second quarter of 2002 compared to gains of \$70 million in the year-ago quarter. The losses in the second quarter of 2002 were primarily attributable to the impact of a weakening dollar on currency swaps and forward contracts used to hedge non-U.S. dollar investments. Realized losses from non-derivative activity were \$63 million in the second quarter of 2002 compared to \$184 million in the year-ago quarter. The second quarter of 2002 includes impairments and credit related losses aggregating \$192 million, which were offset in part by realized gains and prepayment premiums. Credit related losses during the second quarter of 2002 included realized losses of \$77 million on the disposal of substantially all remaining WorldCom holdings. Losses in the second quarter of 2001 included impairments of \$128 million.

2002 to 2001 Six Month Comparison. Consolidated realized investment losses, net of gains and related charges and adjustments were \$695 million for the first six months of 2002, compared to net gains of \$293 million for the first six months of 2001.

The Financial Services Businesses' net realized investment losses in the first six months of 2002, before related charges and adjustments, were \$383 million compared to gains of \$340 million in the first six months of 2001. Realized losses in the first six months of 2002 include derivative losses of \$177 million compared to derivative gains of \$127 million in the first six months of 2001. Excluding derivative results that are reported in

[Table of Contents](#)

adjusted operating income, derivatives losses were \$234 million in the first six months of 2002 compared to gains of \$116 million in the first six months of 2001. The losses in the first six months of 2002 were primarily the result of negative mark-to-market adjustments of \$149 million on foreign currency forward contracts used to hedge the future income of non-U.S. businesses, driven by the weakening of the U.S. dollar. The remaining losses in the first six months of 2002 were primarily attributable to currency hedges of non-U.S. dollar investments and treasury futures contracts used to manage the duration of the Company's fixed maturity investment portfolio. Derivative gains recorded in the first six months of 2001 were attributable in part to the impact of a strengthening dollar on currency hedges of non-U.S. dollar investments. Realized losses from non-derivative activity were \$206 million in the first six months of 2002 compared to net gains of \$213 million in the same period of the prior year. The first six months of 2002 include impairments and credit related losses aggregating \$361 million, which were offset in part by realized gains and prepayment premiums. The first six months of 2001 included \$184 million of impairments, which were more than offset by realized gains generated during a period of declining interest rates.

For the Closed Block Business, realized investment losses, net of gains, increased \$231 million, from \$25 million in the first six months of 2001 to \$256 million in the first six months of 2002. Net losses on derivatives were \$113 million in the first six months of 2002 compared to gains of \$125 million in the first six months of 2001. Currency hedges of non-U.S. dollar investments used to manage the duration of the Company's fixed maturity investment portfolio generated losses in the first six months of 2002 compared to gains in the first six months of 2001. Realized losses from non-derivative activity were \$143 million in the first six months of 2002 compared to \$150 million in the same period of the prior year. The first six months of 2002 include impairments and credit related losses aggregating \$308 million, which were offset in part by realized gains and prepayment premiums. The first six months of 2001 included \$176 million of impairments.

Divested Businesses

Our income from operations includes results from several businesses that we have divested but did not qualify for "discontinued operations" treatment in our income statement under GAAP. Our results from divested businesses for the three and six months ended June 30, 2002 and 2001 primarily relate to the former lead-managed equity underwriting for corporate issuers and institutional fixed income businesses of Prudential Securities, which recorded pre-tax losses of \$4 million and \$12 million for the three and six months ended June 30, 2002, respectively, compared to pre-tax losses of \$59 million and \$82 million in the comparable periods of 2001, respectively. The losses in these periods came primarily from deterioration in the value of collateralized receivables, which we are in the process of liquidating, coupled with wind-down costs. The losses for the three and six month periods ended June 30, 2002 were offset by income resulting from a \$14 million reserve reversal in connection with our divested residential mortgage banking business.

Demutualization Costs and Expenses

We incurred costs and expenses related to demutualization totaling \$117 million in the second quarter of 2001 and \$162 million in the first six months of 2001. These costs and expenses are reported separately in our consolidated income statements within income from operations before income taxes. These demutualization expenses consisted primarily of the costs of engaging independent accounting, actuarial, investment banking, legal and other consultants that advised us and insurance regulators in the demutualization process and related matters as well as printing and postage for communication with policyholders.

Taxes

Our income tax provision amounted to a \$41 million benefit in the second quarter of 2002 and a \$39 million benefit in the second quarter of 2001. The income tax benefit in the second quarter of 2001 was attributable to a \$100 million reduction of the estimated liability for the mutual life insurance company tax, partly offset by the impact of non-deductible demutualization costs and expenses.

[Table of Contents](#)

Our income tax provisions amounted to \$50 million in the first six months of 2002 and \$247 million in the first six months of 2001. The income tax provisions represented 37.0% of income from operations before income taxes in the first six months of 2002 and 28.1% of income from operations before income taxes in the first six months of 2001. The lower effective rate in the 2001 period was primarily due to the \$100 million reduction of the estimated liability for the mutual life insurance company tax partially offset by demutualization costs and expenses during that period, which amounts were not deductible for tax purposes.

[Table of Contents](#)

Results of Operations for Financial Services Businesses by Division and Closed Block Business

The following table summarizes certain selected financial data for each of our four divisions and for Corporate and Other operations, including consolidating adjustments, which together comprise our Financial Services Businesses, and our Closed Block Business, for the three and six months ended June 30, 2002 and 2001, as well as their assets as of June 30, 2002 and December 31, 2001. In managing the Financial Services Businesses, we analyze our operating performance using “adjusted operating income,” which is a non-GAAP measure that excludes certain items as described above under “—Consolidated Results of Operations.” Amounts for the Financial Services Businesses presented below are prepared on that basis.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Revenues:				
Financial Services Businesses:				
Adjusted operating income basis (1):				
U.S. Consumer	\$ 1,882	\$ 1,912	\$ 3,723	\$ 3,860
Employee Benefits	1,597	1,471	3,121	2,932
International (2)	1,382	1,191	2,768	1,863
Asset Management	299	310	590	639
Corporate and Other	(1)	129	13	127
Total	5,159	5,013	10,215	9,421
Other amounts included in consolidated revenues:				
Realized investment gains (losses), net, and related adjustments	(339)	82	(440)	329
Revenues from divested businesses	22	(13)	4	(5)
Total revenues—Financial Services Businesses	4,842	5,082	9,779	9,745
Total revenues—Closed Block Business (3)	1,826	2,086	3,603	4,170
Total consolidated revenues	\$ 6,668	\$ 7,168	\$ 13,382	\$ 13,915
Adjusted operating income (4):				
U.S. Consumer	\$ 117	\$ 82	\$ 288	\$ 276
Employee Benefits	94	52	160	156
International (2)	176	120	376	218
Asset Management	56	32	119	110
Corporate and Other	35	75	58	74
Total Financial Services Businesses	478	361	1,001	834
Items excluded from adjusted operating income:				
Realized investment gains, net of losses and related charges and adjustments:				
Realized investment gains (losses), net, and related adjustments	(339)	82	(440)	329
Related charges	(4)	(7)	1	(11)
Total realized investment gains, net of losses and related charges and adjustments	(343)	75	(439)	318
Divested businesses	10	(60)	2	(82)
Demutualization costs and expenses	—	(117)	—	(162)
Income from operations before income taxes—Financial Services Businesses	145	259	564	908
Income from operations before income taxes—Closed Block Business(3)	(254)	(103)	(429)	(29)
Consolidated income from operations before income taxes	\$ (109)	\$ 156	\$ 135	\$ 879
Income (loss) from operations before income taxes:				
Financial Services Businesses:				
U.S. Consumer	\$ 72	\$ 64	\$ 225	\$ 285
Employee Benefits	(77)	23	(41)	220
International (2)	141	153	256	257
Asset Management	58	22	180	101
Corporate and Other	(49)	(3)	(56)	45
Total Financial Services Businesses	145	259	564	908
Closed Block Business (3)	(254)	(103)	(429)	(29)
Total	\$ (109)	\$ 156	\$ 135	\$ 879

Table of Contents

	As of June 30, 2002	As of December 31, 2001
	(in millions)	
Assets:		
Financial Services Businesses:		
U.S. Consumer	\$ 68,078	\$ 71,231
Employee Benefits	74,936	72,767
International	42,225	41,401
Asset Management	31,031	28,357
Corporate and Other	13,745	17,549
Total Financial Services Businesses	230,015	231,305
Closed Block Business(3)	67,689	61,725
Total	\$ 297,704	\$ 293,030

- (1) Revenues exclude net realized investment gains (losses) and related adjustments, and revenues from divested businesses.
- (2) International Insurance segment results include Gibraltar Life, from April 2, 2001, the date of reorganization, through May 31, 2002.
- (3) Amounts shown for the Closed Block Business represent results of the Traditional Participating Products segment for the 2001 periods.
- (4) Adjusted operating income equals revenues as defined above in footnote (1) less benefits and expenses excluding (i) the impact of net realized investment gains on deferred acquisition cost amortization, reserves and dividends to policyholders; (ii) the benefits and expenses from divested businesses; and (iii) demutualization costs and expenses.

Other Data:

	As of June 30, 2002	As of December 31, 2001
	(in billions)	
Assets Under Management and Administration (at fair market value):		
Managed by Asset Management division(1):		
Retail customers(2)	\$ 84.8	\$ 96.5
Institutional customers(3)	83.5	89.1
General account(4)	116.0	113.8
Total managed by Asset Management division	284.3	299.4
Managed by Retail Investments or Private Client Group segments:		
Non-proprietary wrap-fee and other domestic assets under management(5)	46.2	49.3
International(4)(6)	37.9	39.3
Total assets under management	368.4	388.0
Client assets under administration	188.4	201.6
Total assets under management and administration	\$ 556.8	\$ 589.6

- (1) Reflects reclassification of amounts by client category as of January 1, 2002, based upon internal management criteria, which reduced the amount attributed to retail customers by \$3.3 billion and increased the amounts attributed to institutional customers and the general account by \$2.8 billion and \$0.5 billion, respectively.
- (2) Consists of individual mutual funds, including investments in our mutual funds through wrap-fee products, and both variable annuities and variable life insurance assets in our separate accounts. Fixed annuities and the fixed rate options of both variable annuities and variable life insurance are included in general account.
- (3) Consists of third-party institutional assets and group insurance contracts.
- (4) Reflects, as of June 30, 2002, Asset Management division's assumption of management of \$3.5 billion of assets of International Insurance operations which were previously reflected in International assets.
- (5) Consists of wrap-fee assets gathered by the Private Client Group and Retail Investments segments and funds invested in the non-proprietary options of our investment products other than wrap-fee products.
- (6) Consists primarily of general account assets supporting our International Insurance segment, assets gathered by the International Securities and Investments segment and wind-down Canadian operations.

Table of Contents

	As of June 30, 2002	As of December 31, 2001
Distribution Representatives:		
Prudential Agents	4,551	4,387
Financial Advisors (domestic and international)	5,504	6,159
International Life Planners	4,207	4,104
Gibraltar Life Advisors (as of May 31, 2002)	5,525	6,121

U.S. Consumer Division

Division Results

The following table and discussion present the U.S. Consumer division's results based on our definition of adjusted operating income, which is a non-GAAP measure, as well as income from operations before income taxes, which is prepared in accordance with GAAP. See "—Consolidated Results of Operations" for a definition of adjusted operating income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Division operating results:				
Revenues(1)	\$ 1,882	\$ 1,912	\$ 3,723	\$ 3,860
Benefits and expenses(2)	1,765	1,830	3,435	3,584
Adjusted operating income	\$ 117	\$ 82	\$ 288	\$ 276
Adjusted operating income by segment:				
Individual Life Insurance	\$ 130	\$ 87	\$ 247	\$ 166
Private Client Group	(29)	(98)	(48)	(104)
Retail Investments	(2)	60	49	121
Property and Casualty Insurance	18	33	40	93
Total	117	82	288	276
Items excluded from adjusted operating income:				
Realized investment gains, net of losses and related charges:				
Realized investment gains (losses), net	(46)	(16)	(65)	13
Related charges(3)	1	(2)	2	(4)
Total realized investment gains, net of losses and related charges	(45)	(18)	(63)	9
Income from operations before income taxes	\$ 72	\$ 64	\$ 225	\$ 285

(1) Revenues exclude realized investment gains, net of losses.

(2) Benefits and expenses exclude the impact of net realized investment gains on deferred acquisition cost amortization and reserves.

(3) Related charges consist of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Reserves for future policy benefits	\$ —	\$ —	\$ —	\$ (1)
Amortization of deferred policy acquisition costs	1	(2)	2	(3)
Total	\$ 1	\$ (2)	\$ 2	\$ (4)

2002 to 2001 Three Month Comparison. Adjusted operating income of our U.S. Consumer division increased \$35 million, or 43%, in the second quarter of 2002 from the second quarter of 2001 as a result of

[Table of Contents](#)

increases in adjusted operating income of \$43 million from our Individual Life Insurance segment and \$69 million from our Private Client Group segment. These increases were partially offset by a \$62 million decrease from our Retail Investment segment. Income from operations before income taxes increased \$8 million, or 13%, as a result of the increase in adjusted operating income, partially offset by an increase in realized investment losses, net of related charges. For a discussion of realized investment gains and losses and charges related to realized investment gains and losses, see “—Consolidated Results of Operations—Realized Investment Gains.”

2002 to 2001 Six Month Comparison. Adjusted operating income of our U.S. Consumer division increased \$12 million, or 4%, in the first six months of 2002 from the first six months of 2001 as a result of increases in adjusted operating income of \$81 million from our Individual Life Insurance segment and \$56 million from our Private Client Group segment. These increases were partially offset by a \$72 million decrease from our Retail Investment segment. Income from operations before income taxes decreased \$60 million, or 21%, as a result of a \$72 million decrease in realized investment gains, net of losses and related charges which more than offset the increase in adjusted operating income. For a discussion of realized investment gains and losses and charges related to realized investment gains and losses, see “—Consolidated Results of Operations—Realized Investment Gains.”

Individual Life Insurance

Operating Results

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Operating results:				
Revenues(1)	\$ 455	\$ 478	\$ 898	\$ 945
Benefits and expenses	325	391	651	779
Adjusted operating income	\$ 130	\$ 87	\$ 247	\$ 166

(1) Revenues exclude realized investment gains, net of losses.

Adjusted Operating Income

2002 to 2001 Three Month Comparison. Adjusted operating income increased \$43 million from the second quarter of 2001 to the second quarter of 2002. The increase came primarily from a decline in operating expenses, reflecting savings that we continue to realize from our field management and agency restructuring program implemented in 2001, for which the year-ago quarter included \$12 million of implementation costs.

2002 to 2001 Six Month Comparison. Adjusted operating income increased \$81 million from the first six months of 2001 to the first six months of 2002. The increase came primarily from a decline in operating expenses, reflecting savings that we continue to realize from our field management and agency restructuring program implemented in 2001, for which the year-ago period included \$8 million of implementation costs. Additionally, results for the first six months of 2002 benefited from more favorable mortality experience, net of reinsurance.

Revenues

2002 to 2001 Three Month Comparison. Revenues, as shown in the table above under “—Operating Results,” decreased \$23 million, or 5%, from the second quarter of 2001 to the second quarter of 2002. Premiums

[Table of Contents](#)

decreased \$31 million, or 32%, from \$96 million in the second quarter of 2001 to \$65 million in the second quarter of 2002, reflecting decreased premiums on term insurance we issued under policy provisions to customers who previously had lapsing variable life insurance with us. Policy charges and fees amounted to \$252 million in the second quarter of 2002, essentially unchanged from \$256 million in the second quarter of 2001. Net investment income increased \$4 million, or 4%, from \$97 million in the second quarter of 2001 to \$101 million in the second quarter of 2002, primarily from an increase in the level of invested assets.

2002 to 2001 Six Month Comparison. Revenues decreased \$47 million, or 5%, from the first six months of 2001 to the first six months of 2002. Premiums decreased \$62 million, or 34%, from \$183 million in the first six months of 2001 to \$121 million in the first six months of 2002, reflecting decreased premiums on term insurance as discussed above. Policy charges and fees amounted to \$502 million in the first six months of 2002, essentially unchanged from \$507 million in the first six months of 2001. Net investment income increased \$10 million, or 5%, from \$196 million in the first six months of 2001 to \$206 million in the first six months of 2002, primarily from an increase in the level of invested assets.

Benefits and Expenses

2002 to 2001 Three Month Comparison. Benefits and expenses, as shown in the table above under “—Operating Results,” decreased \$66 million, or 17%, from the second quarter of 2001 to the second quarter of 2002. Operating expenses, including distribution costs that we charge to expense, declined \$30 million reflecting savings from our program to restructure our field management and agency structure, for which expenses in the year-ago quarter included \$12 million of implementation costs. Policyholder benefits and related changes in reserves decreased \$45 million, from \$170 million in the second quarter of 2001 to \$125 million in the second quarter of 2002, primarily as a result of the lower amount of term insurance we issued in the 2002 period under policy provisions to customers who previously had lapsing variable life insurance with us.

2002 to 2001 Six Month Comparison. Benefits and expenses decreased \$128 million, or 16%, from the first six months of 2001 to the first six months of 2002. Operating expenses, including distribution costs that we charge to expense, declined \$53 million reflecting savings from our program to restructure our field management and agency structure, for which expenses in the year-ago period included \$8 million of implementation costs. Policyholder benefits and related changes in reserves decreased \$74 million, from \$324 million in the first six months of 2001 to \$250 million in the first six months of 2002, primarily as a result of the lower amount of term insurance we issued in the 2002 period under policy provisions to customers who previously had lapsing variable life insurance with us, as well as more favorable mortality experience, net of reinsurance.

Table of Contents

Sales Results

The following table sets forth the Individual Life Insurance segment's sales, as measured by statutory first year premiums and deposits for the periods indicated. These amounts do not correspond to revenues under GAAP. In managing our individual life insurance business, we analyze statutory first year premiums and deposits as well as revenues because statutory first year premiums and deposits measure the current sales performance of the business unit, while revenues reflect, predominantly in our case, 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 June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Sales(1):				
Variable and universal life	\$ 57	\$ 58	\$ 112	\$ 123
Corporate-owned life insurance	76	28	86	65
Term life	15	11	28	21
Total	\$ 148	\$ 97	\$ 226	\$ 209
Sales by distribution channel(1):				
Prudential Agents	\$ 55	\$ 54	\$ 108	\$ 111
Third-party and other distributors	93	43	118	98
Total	\$ 148	\$ 97	\$ 226	\$ 209

(1) Statutory first year premiums and deposits.

2002 to 2001 Three Month Comparison. Sales of new life insurance, as measured by statutory first year premiums and deposits, increased \$51 million from the second quarter of 2001 to the second quarter of 2002. The increase came primarily from a \$48 million increase in the segment's sales of corporate-owned life insurance products, substantially all of which is sold by the PruSelect third-party distribution channel. A decrease of \$17 million in sales of variable life insurance was essentially offset by sales of our universal life insurance products, which we introduced in late 2001. In 2001 we also repriced certain of our term insurance products. Inclusive of corporate-owned life insurance sales, which tend to emerge unevenly over the course of the year due to the typically large case size, PruSelect accounted for 63% of the Individual Life Insurance segment's sales in the second quarter of 2002, compared to 44% in the second quarter of 2001. Sales by the PruSelect channel, other than corporate-owned life insurance, increased \$2 million in the second quarter of 2002 from the second quarter of 2001. During 2001, we began to expand the focus of PruSelect, which has historically served intermediaries who provide insurance solutions in support of estate and wealth transfer planning for affluent individuals and corporate-owned life insurance for businesses, toward the mass affluent market. Beginning in the second quarter of 2002 for any new business, we increased the maximum amount of individual life insurance we may retain on any life to \$30 million.

Sales from Prudential Agents were essentially unchanged from the second quarter of 2001 to the second quarter of 2002, as the decline in agents was largely offset by an increase in productivity. The number of Prudential Agents declined to approximately 4,500 at June 30, 2002, down from approximately 5,000 at June 30, 2001, but increased from December 31, 2001. The decline in agents from June 30, 2001 reflected actions we took in 2001 to increase the productivity standards required to continue agents' contracts. Prudential Agent annualized productivity increased to \$38,000 in the second quarter of 2002 from \$30,000 in the second quarter of 2001. We measure Prudential Agent productivity as commissions on new sales of all products, not only life insurance, by Prudential Agents with us for the entire period, divided by the number of those Prudential Agents. We have not implemented further increases in these productivity standards for periods subsequent to 2001. While there can be

[Table of Contents](#)

no assurance, we believe that maintenance of these standards at their current level will contribute to stabilization in the number of Prudential Agents.

2002 to 2001 Six Month Comparison. Sales of new life insurance, as measured by statutory first year premiums and deposits, increased \$17 million from the first six months of 2001 to the first six months of 2002. The increase came primarily from \$27 million of sales of our universal life insurance products which we introduced in late 2001 and a \$21 million increase in the segment's sales of corporate-owned life insurance products, substantially all of which is sold by the PruSelect third-party distribution channel. A decrease of \$38 million in sales of variable life insurance partially offset these increases. In 2001 we also repriced certain of our term insurance products. Inclusive of corporate-owned life insurance sales, which tend to emerge unevenly over the course of the year due to the typically large case size, PruSelect accounted for 52% of the Individual Life Insurance segment's sales in the first six months of 2002, compared to 47% in the first six months of 2001. Sales by the PruSelect channel, other than corporate-owned life insurance, were essentially unchanged in the first six months of 2002 from the year-ago period.

Sales from Prudential Agents declined by \$3 million from the first six months of 2001 to the first six months of 2002, as the decline in agents was largely offset by an increase in productivity, as discussed above. Prudential Agent productivity increased to \$37,000 in the first six months of 2002 from \$29,000 from the first six months of 2001.

Policy Surrender Experience

The following table sets forth the Individual Life Insurance segment's policy surrender experience for variable life insurance, measured by cash value of surrenders, for the periods indicated. These amounts do not correspond to expenses under 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. Our term life insurance products do not provide for cash surrender values.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(\$ in millions)			
Cash value of surrenders	\$148	\$149	\$310	\$329
Cash value of surrenders as a percentage of mean future policy benefit reserves, policyholders' account balances, and separate account balances	3.6%	3.5%	3.8%	3.8%

2002 to 2001 Three Month Comparison. The total cash value of surrenders and the level of surrenders as a percentage of mean future policy benefit reserves, policyholders' account balances and separate account balances was relatively constant from the second quarter of 2001 to the second quarter of 2002.

2002 to 2001 Six Month Comparison. The level of surrenders as a percentage of mean future policy benefit reserves, policyholders' account balances and separate account balances remained constant in the first six months of 2002 from the first six months of 2001.

Table of Contents

Private Client Group

Operating Results

The following table sets forth the Private Client Group segment's operating results for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Operating results:				
Non-interest revenues	\$ 476	\$ 499	\$ 958	\$1,035
Net interest revenues	45	57	90	127
Total revenues, net of interest expense	521	556	1,048	1,162
Total non-interest expenses	550	654	1,096	1,266
Adjusted operating income	\$ (29)	\$ (98)	\$ (48)	\$ (104)

Adjusted Operating Income

2002 to 2001 Three Month Comparison. The Private Client Group segment reported losses, on an adjusted operating income basis, of \$29 million for the second quarter of 2002 and \$98 million for the second quarter of 2001. The \$69 million decrease in the segment's loss came from our domestic securities brokerage operations, which reported a loss of \$29 million for the second quarter of 2002 as compared to a loss of \$98 million for the second quarter of 2001, including \$39 million of costs incurred to reduce staffing levels, occupancy costs and other overhead costs. The decrease in non-interest expenses resulting from these actions more than offset the negative impact of the continued decline in revenues from retail investor transaction volume and margin loan and other customer balances, which resulted in decreased commission and net interest revenues.

2002 to 2001 Six Month Comparison. The Private Client Group segment reported losses, on an adjusted operating income basis, of \$48 million for the first six months of 2002 and \$104 million for the first six months of 2001. The \$56 million decrease in the segment's loss came primarily from our domestic securities brokerage operations, which reported a loss of \$48 million for the first six months of 2002 as compared to a loss of \$106 million for the first six months of 2001, including \$39 million of costs incurred to reduce staffing levels, occupancy costs and other overhead costs. The decrease in non-interest expenses resulting from these actions more than offset the negative impact of the continued decline in revenues from retail investor transaction volume and margin loan and other customer balances, which resulted in decreased commission and net interest revenues.

Revenues

The following table sets forth the Private Client Group segment's revenues, as shown in the table above under "—Operating Results," by source for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Commissions	\$ 264	\$ 296	\$ 534	\$ 616
Fees	179	168	356	350
Other	33	35	68	69
Total non-interest revenues	476	499	958	1,035
Net interest revenues	45	57	90	127
Total revenues, net of interest expense	\$ 521	\$ 556	\$ 1,048	\$ 1,162

[Table of Contents](#)

2002 to 2001 Three Month Comparison. Total revenues, net of interest expense, as shown in the table above under “—Operating Results,” decreased \$35 million, or 6%, from the second quarter of 2001 to the second quarter of 2002. The decrease came from a decline of \$34 million in revenues from our domestic securities brokerage operations, from \$547 million in the second quarter of 2001 to \$513 million in the second quarter of 2002.

Commission revenues decreased \$32 million, or 11%, from the second quarter of 2001 to the second quarter of 2002. The decrease came primarily from a \$27 million decline in commissions from over-the-counter and listed equity securities transactions. Commission revenues have been negatively affected by less active securities markets and reduced retail investor transaction volume. Commission revenues accounted for 56% of total segment non-interest revenues for the second quarter of 2002. Accordingly, we expect that a continuation of the level of securities market activity experienced in the second quarter of 2002, or a further downtrend in this activity, would continue to have a negative impact on our revenues and on the segment’s adjusted operating income, partially offset by lower expenses resulting from actions we have taken to reduce the cost structure of our domestic securities brokerage operations.

Fee revenues, which include asset management and account service fees, increased \$11 million, or 7%, from the second quarter of 2001 to the second quarter of 2002. The increase came from an increase in account service fees, reflecting a revised pricing schedule implemented at the beginning of the 2002 and a \$3.7 billion increase in wrap-fee managed account assets under management, for which fees are charged based on quarterly opening balances, to \$32.9 billion at the beginning of the second quarter of 2002, from \$29.2 billion at the beginning of the second quarter of 2001. The negative impact of market value declines on wrap-fee and managed account assets, as well as competitive pricing pressures and changes in product mix, partially offset the benefit of new assets gathered in these accounts. Fee revenues accounted for 38% of total non-interest revenues in the second quarter of 2002, compared to 34% in the second quarter of 2001, reflecting the decrease in commission revenues and actions we have taken to increase the contribution of recurring revenues. These actions included enhanced marketing of fee-based products and compensation incentives to Financial Advisors for sales of these products, as well as emphasis on financial planning in training of Financial Advisors.

Net interest revenues decreased \$12 million from the second quarter of 2001 to the second quarter of 2002, primarily as a result of a decrease in average customer margin lending and other customer related balances of our domestic securities brokerage operations, reflecting the reduced level of individual investor activity. The average of customer margin lending balances was \$3.10 billion in the second quarter of 2002 compared to \$4.38 billion in the second quarter of 2001.

The number of domestic retail Financial Advisors was 4,729 at June 30, 2002, a decrease of 7% from 5,085 at March 31, 2002 and a decrease of 12% from 5,383 at December 31, 2001. The majority of the decline came from Financial Advisors with less than 4 years of industry experience and reflects the attrition of less experienced Financial Advisors and a decrease in our hiring of inexperienced Financial Advisors to be trained by us.

Assets under management and client assets decreased \$22 billion to \$228 billion at June 30, 2002 from \$250 billion at March 31, 2002 and decreased \$23 billion from \$251 billion at December 31, 2001, primarily as a result of overall market value declines.

2002 to 2001 Six Month Comparison. Total revenues, net of interest expense, decreased \$114 million, or 10%, from the first six months of 2001 to the first six months of 2002. The decrease came primarily from a \$109 million decline in revenues from our domestic securities brokerage operations, from \$1.142 billion in the first six months of 2001 to \$1.033 billion in the first six months of 2002.

Commission revenues decreased \$82 million, or 13%, from the first six months of 2001 to the first six months of 2002. The decrease came primarily from a \$69 million decline in commissions from over-the-counter

[Table of Contents](#)

and listed equity securities transactions. Commission revenues have been negatively affected by less active securities markets and reduced retail investor transaction volume. Commission revenues accounted for 56% of total segment non-interest revenues for the first six months of 2002.

Fee revenues, which include asset management and account service fees, increased \$6 million, or 2%, from the first six months of 2001 to the first six months of 2002. The increase came from an increase in account service fees, reflecting a revised pricing schedule implemented at the beginning of 2002. Partially offsetting this increase was a decrease in revenues from wrap-fee products, reflecting competitive pricing pressures and changes in product mix, as well as the negative impact of market value declines. The negative impact of market value declines on wrap-fee and managed account assets under management essentially offset the benefit of new assets gathered in these accounts. Fee revenues accounted for 37% of total non-interest revenues in the first six months of 2002, compared to 34% in the first six months of 2001, reflecting the decrease in commission revenues and actions we have taken to increase the contribution of recurring revenues as discussed above.

Net interest revenues decreased \$37 million from the first six months of 2001 to the first six months of 2002, primarily as a result of a decrease in average customer margin lending and other customer related balances of our domestic securities brokerage operations, reflecting the reduced level of individual investor activity. The average of customer margin lending balances was \$3.18 billion in the first six months of 2002 compared to \$4.80 billion in the first six months of 2001.

Non-Interest Expenses

2002 to 2001 Three Month Comparison. Total non-interest expenses, as shown in the table above under “—Operating Results,” decreased \$104 million, or 16%, from the second quarter of 2001 to the second quarter of 2002. Non-interest expenses for the year-ago quarter included \$39 million of costs incurred to reduce staffing levels, occupancy costs and other overhead costs at our domestic securities brokerage operations. The remainder of the decrease came primarily from the reduced cost structure resulting from the actions taken and declines in revenue-based compensation costs.

2002 to 2001 Six Month Comparison. Total non-interest expenses decreased \$170 million, or 13%, from the first six months of 2001 to the first six months of 2002. Non-interest expenses for the year-ago period included \$39 million of costs incurred to reduce staffing levels, occupancy costs and other overhead costs at our domestic securities brokerage operations. The remainder of the decrease came primarily from the reduced cost structure resulting from the actions taken and declines in revenue based compensation costs.

Retail Investments

Operating Results

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Operating results:				
Revenues(1)	\$ 345	\$ 370	\$ 685	\$ 756
Benefits and expenses(2)	347	310	636	635
Adjusted operating income	\$ (2)	\$ 60	\$ 49	\$ 121

(1) Revenues exclude realized investment gains, net of losses.

(2) Benefits and expenses exclude the impact of net realized investment gains on deferred policy acquisition cost amortization and reserves.

[Table of Contents](#)

Adjusted Operating Income

2002 to 2001 Three Month Comparison. Adjusted operating income decreased \$62 million, from \$60 million in the second quarter of 2001 to a loss of \$2 million in the second quarter of 2002. The second quarter 2002 loss included a \$48 million charge for additional amortization of deferred policy acquisition costs to reflect our lower estimate of future gross profits from annuities due to a decrease in expected equity market returns and declines, through June 30, 2002, in asset values on which our fees are based. Continued deterioration in market conditions may result in further increases in the amortization of deferred policy acquisition costs. Approximately \$58 million of the segment's \$62 million decrease in adjusted operating income came from our annuity business, reflecting the foregoing charge as well as a decline in fee revenues from our variable annuities products due to a decrease in average account values. The remainder of the decrease came from our mutual funds and wrap-fee products business, primarily due to lower asset based fee revenues.

2002 to 2001 Six Month Comparison. Adjusted operating income decreased \$72 million, from \$121 million in the first six months of 2001 to \$49 million in the first six months of 2002. Approximately \$64 million of the \$72 million decrease came from annuity business reflecting an increase of \$31 million in amortization of deferred policy acquisition costs, including the additional amortization in the second quarter as described above as well as a decline in fee revenues from our variable annuities products due to a decrease in average account values. The remainder of the decrease came from our mutual funds and wrap-fee products business, primarily due to lower asset based fee revenues.

Revenues

2002 to 2001 Three Month Comparison. Revenues, as shown in the table above under “—Operating Results,” decreased \$25 million, or 7%, from \$370 million in the second quarter of 2001 to \$345 million in the second quarter of 2002. Fee-based revenues decreased \$25 million, or 10%, from \$248 million in the second quarter of 2001 to \$223 million in the second quarter of 2002. The decrease came from our mutual funds and wrap-fee products business and from our variable annuity products business reflecting a decline in the average market value of customer accounts on which our fees are based. Additionally, investment income decreased \$8 million, or 7%, from \$109 million in the second quarter of 2001 to \$101 million in the second quarter of 2002, reflecting lower yields on our investment portfolio. These revenue declines were partially offset by an \$8 million increase in premium revenue in the second quarter of 2002, from \$13 million in the second quarter of 2001 to \$21 million in the second quarter of 2002, due primarily to increased sales of our immediate annuity product.

2002 to 2001 Six Month Comparison. Revenues decreased \$71 million, or 9%, in the first six months of 2002 from \$756 million in the first six months of 2001 to \$685 million in the first six months of 2002. Fee-based revenue decreased \$46 million, or 9%, in the first six months of 2002 from \$500 million in the first six months of 2001 to \$454 million in the first six months of 2002. The decrease came primarily from our mutual funds and wrap-fee products and from our variable annuity products reflecting a decline in the average market value of customer accounts on which our fees are based. Additionally, investment income decreased \$29 million, or 13%, in the first six months of 2002 from \$230 million in the first six months of 2001 to \$201 million in the first six months of 2002, reflecting lower yields on our investment portfolio.

Benefits and Expenses

2002 to 2001 Three Month Comparison. Benefits and expenses, as shown in the table above under “—Operating Results,” increased \$37 million, or 12%, from the second quarter of 2001 to the second quarter of 2002. Amortization of deferred policy acquisition costs increased \$49 million, from \$40 million in the second quarter of 2001 to \$89 million in the second quarter of 2002, reflecting the additional amortization in the second quarter of 2002 resulting from a decrease in expected future gross profits on our annuity products, as discussed above. Policyholders' benefits increased \$12 million, or 48%, from \$25 million in the second quarter of 2001 to \$37 million in the second quarter of 2002 reflecting the establishment of reserves for immediate annuities sold, as

[Table of Contents](#)

discussed above, as well as \$7 million of guaranteed minimum death benefit payments on variable annuity products, an increase of \$3 million from the second quarter of 2001. Interest credited to policyholders' account balances decreased by \$5 million, or 8%, from \$65 million in the second quarter of 2001 to \$60 million in the second quarter of 2002 due primarily to a reduction in crediting rates on existing business in response to declining yields on our investment portfolio. Commissions and other general expenses decreased \$18 million, or 10%, from \$178 million in the second quarter of 2001 to \$160 million in the second quarter of 2002 primarily due to lower asset management expense on our mutual fund and wrap-fee products and our variable annuity products and a decrease in general and administrative expenses reflecting our expense management efforts.

2002 to 2001 Six Month Comparison. Benefits and expenses were essentially unchanged in the first six months of 2002 compared to the first six months of 2001. Amortization of deferred policy acquisition costs increased \$30 million, or 30%, from \$100 million in the first six months of 2001 to \$130 million in the first six months of 2002 reflecting the additional amortization in the second quarter of 2002 resulting from a decrease in expected future gross profits on our annuity products, as discussed above. Policyholders' benefits increased \$16 million, or 33%, from \$49 million in the first six months of 2001 to \$65 million in the first six months of 2002 reflecting the establishment of reserves for immediate annuities sold as discussed above as well as \$14 million of guaranteed minimum death benefit payments on variable annuity products, an increase of \$7 million from the first six months of 2001. Interest credited to policyholders' account balances decreased by \$13 million, or 10%, from \$133 million in the first six months of 2001 to \$120 million in the first six months of 2002, due primarily to a reduction in crediting rates on existing business in response to declining yields on our investment portfolio. Commissions and other general expenses decreased \$29 million, or 8%, from \$349 million in the first six months of 2001 to \$320 million in the first six months of 2002 primarily due to lower asset management expense on our mutual fund and wrap-fee products and our variable annuity products and a decrease in general and administrative expenses reflecting our expense management efforts.

Table of Contents

Sales Results and Assets Under Management

The following table sets forth the changes in the total mutual fund assets and annuities, excluding wrap-fee products, the balance of wrap-fee product assets and net sales of our Retail Investments mutual fund products, which include funds that we manage in third party products ("sub-advised funds"), and annuity products for the periods indicated. Assets are reported at fair market value for mutual funds and wrap-fee products and account value for annuities. Net sales (redemptions) are gross sales minus redemptions or surrenders and withdrawals, as applicable. Neither sales nor net sales are revenues under GAAP; they are, however, relevant measures of business activity. Revenues are derived from fees and interest spread income as discussed above.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Mutual Funds(1) and Wrap-fee Products(2):				
Mutual fund assets, excluding wrap-fee products:				
Beginning total mutual fund assets	\$ 56,743	\$ 58,168	\$ 57,809	\$ 57,764
Sales (other than money market)	1,460	2,106	2,374	3,430
Redemptions (other than money market)	(1,339)	(1,103)	(2,455)	(2,305)
Reinvestment of distributions and change in market value	(2,450)	1,056	(2,418)	(198)
Net money market sales	(1,955)	(609)	(2,851)	927
Ending total mutual fund assets	52,459	59,618	52,459	59,618
Wrap-fee product assets at end of period	16,676	18,714	16,676	18,714
Total mutual fund and wrap-fee product assets at end of period	\$ 69,135	\$ 78,332	\$ 69,135	\$ 78,332
Net mutual fund sales (redemptions) other than money market(3)	\$ 121	\$ 1,003	\$ (81)	\$ 1,125
Variable Annuities(1):				
Beginning total account value	\$ 18,435	\$ 19,118	\$ 18,689	\$ 21,059
Sales	406	328	780	667
Surrenders and withdrawals	(627)	(591)	(1,224)	(1,256)
Change in market value, interest credited and other activity(4)(5)	(1,412)	668	(1,443)	(947)
Ending total account value	\$ 16,802	\$ 19,523	\$ 16,802	\$ 19,523
Net sales (redemptions)	\$ (221)	\$ (263)	\$ (444)	\$ (589)
Fixed Annuities				
Beginning total account value	\$ 2,909	\$ 2,889	\$ 2,975	\$ 2,926
Sales	181	27	218	57
Surrenders and withdrawals	(45)	(55)	(95)	(124)
Interest credited and other activity(4)(5)	3	11	(50)	13
Ending total account value	\$ 3,048	\$ 2,872	\$ 3,048	\$ 2,872
Net sales (redemptions)	\$ 136	\$ (28)	\$ 123	\$ (67)

- (1) Mutual funds and variable annuities include only those sold as retail investment products. Investments through defined contribution plan products are included with such products. Mutual fund balances include assets from our sub-advised funds of \$1.8 billion and \$1.5 billion as of June 30, 2002 and 2001, respectively.
- (2) Wrap-fee product assets include proprietary assets of \$3.0 billion at June 30, 2002 and \$3.2 billion as of June 30, 2001.
- (3) Excludes wrap-fee products. Mutual fund net sales include net sales from our sub-advised funds of \$470 million and \$949 million for the three months ended June 30, 2002 and 2001, respectively, and \$522 million and \$1.1 billion for the six months ended June 30, 2002 and 2001, respectively.
- (4) Includes maintenance and insurance charges assessed, net bonus payments credited to contract holder accounts, annuity benefits and other adjustments.
- (5) Includes decreases in policyholder account balances during the first six months of 2002 of \$45 million for variable annuities and \$56 million for fixed annuities due to the distribution of policy credits, subsequently paid out in cash, as demutualization consideration in connection with the Company's demutualization.

[Table of Contents](#)

2002 to 2001 Three Month Comparison. Mutual fund and wrap-fee product assets under management of \$69.1 billion decreased \$5.8 billion, or 8%, from March 31, 2002. Mutual fund assets under management of \$52.5 billion declined \$4.3 billion, or 8%, and wrap-fee assets under management of \$16.7 billion declined \$1.5 billion, or 8%.

The decline in mutual fund assets under management in the second quarter of 2002 was due primarily to a decline in the market value of assets managed resulting from equity market conditions and net money market outflows of \$2.0 billion. Net mutual fund sales, other than money market, were \$121 million reflecting \$1.5 billion of gross non-money market sales offset by \$1.3 billion in redemptions. Gross non-money market mutual fund sales decreased \$646 million from \$2.1 billion in the second quarter of 2001 to \$1.5 billion in the second quarter of 2002. The decrease in sales reflects lower sales of \$383 million through sub-advised funds as well as the impact of adverse market conditions. The increase in mutual fund assets in the second quarter of 2001 came primarily from net sales of mutual funds, other than money market, of \$1.0 billion as well as increases in the market value of assets managed, partially offset by net money market outflows of \$609 million.

The decline in wrap-fee product asset under management in the second quarter of 2002 was due to declines in market value of assets managed partially offset by net wrap-fee product sales of \$258 million.

Total account values for fixed and variable annuities decreased \$1.5 billion from \$21.3 billion as of March 31, 2002 due primarily to declines in market values of our variable annuities resulting from adverse market conditions. Net redemptions in the second quarter of 2002 were \$85 million as compared to \$291 million in the second quarter of 2001. The \$206 million decline in net redemptions is primarily the result of a \$232 million increase in gross sales due to recent product and compensation enhancements.

2002 to 2001 Six Month Comparison. Mutual fund and wrap-fee product assets under management of \$69.1 billion decreased \$6.6 billion, or 9%, from December 31, 2001. Mutual fund assets under management of \$52.5 billion declined \$5.4 billion, or 9%, and wrap-fee assets under management of \$16.7 billion declined \$1.3 billion, or 7% from December 31, 2001.

The decline in mutual fund assets under management in the first six months of 2002 was due primarily to a decline in the market value of assets managed resulting from equity market conditions and net money market outflows of \$2.9 billion. Net mutual fund redemptions other than money market were \$81 million, reflecting \$2.4 billion of gross non-money market sales offset by \$2.5 billion in redemptions. Gross non-money market mutual fund sales decreased \$1.0 billion from \$3.4 billion in the first six months of 2001 to \$2.4 billion in the first six months of 2002. The decrease in sales reflects the impact of adverse market conditions as well as a \$412 million decline in assets gathered through sub-advised funds. The increase in mutual fund assets in the first six months of 2001 was primarily the result of net sales of mutual funds, other than money market, of \$1.1 billion and net money market inflows of \$927 million partially offset by declines in market value of assets managed.

The decline in wrap-fee product assets under management in the first six months of 2002 was due to declines in market values of assets managed partially offset by net wrap-fee product sales of \$564 million.

Total account values for fixed and variable annuities decreased \$1.8 billion from \$21.7 billion as of December 31, 2001 due primarily to declines in market values of our variable annuities of \$1.4 billion primarily resulting from adverse market conditions as well as \$321 million in net redemptions. Net redemptions in the first six months of 2002 were \$321 million as compared to \$656 million for the first six months of 2001. The \$335 million decline in net redemptions is primarily the result of a \$274 million increase in gross sales due to recent product and compensation enhancements.

[Table of Contents](#)

Property and Casualty Insurance

Operating Results

The following table sets forth the Property and Casualty Insurance segment's operating results for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Operating results:				
Revenues(1)	\$ 561	\$ 508	\$ 1,092	\$ 997
Benefits and expenses	543	475	1,052	904
Adjusted operating income	\$ 18	\$ 33	\$ 40	\$ 93

(1) Revenues exclude realized investment gains, net of losses.

Adjusted Operating Income

2002 to 2001 Three Month Comparison. Adjusted operating income decreased \$15 million from the second quarter of 2001 to the second quarter of 2002. Results for the second quarter of 2002 benefited \$43 million from stop-loss reinsurance recoveries, prior accident year reserve releases, and a change in our estimate of refunds or credits due to certain New Jersey automobile policyholders under that state's profit regulations, while the benefit from these items in the year-ago quarter was \$58 million. Less favorable accident-year claims experience during the second quarter of 2002 was essentially offset by lower expenses due to cost reduction measures as well as lower catastrophe losses and higher premiums reflecting rate increases we implemented.

We released prior year reserves of \$13 million in both the second quarter of 2002 and the year-ago quarter because our automobile casualty claims experience for prior years was more favorable than we previously estimated in establishing reserves for these accident years. Additionally, we benefited \$15 million in the second quarter of 2002 and \$45 million in the second quarter of 2001 under stop-loss reinsurance contracts, which are based on current accident year results. We have exhausted our limits under the stop-loss reinsurance contract during the second quarter of 2002, which will result in a decline in results later in 2002 absent an improvement in our accident year loss experience.

2002 to 2001 Six Month Comparison. Adjusted operating income decreased \$53 million, or 57%, from the first six months of 2001 to the first six months of 2002. Results for the first six months of 2002 benefited \$65 million from stop-loss reinsurance recoveries, prior accident year reserve releases, and a change in our estimate of refunds or credits due to certain New Jersey automobile policyholders under that state's profit regulations, while the benefit from these items in the year-ago period was \$128 million. However, results for the first six months of 2002 benefited from a \$20 million reduction in expenses, driven largely by our cost reduction initiatives and our discontinuation of certain distribution channels.

We released prior year reserves of \$15 million in the first six months of 2002 and \$60 million in the first six months of 2001 because our automobile casualty claims experience for prior years was more favorable than we previously estimated in establishing reserves for these accident years. Additionally, we benefited \$35 million in the first six months of 2002 and \$68 million in the first six months of 2001 under stop-loss reinsurance contracts, which are based on current accident year results.

Table of Contents

Revenues

The following table sets forth the Property and Casualty Insurance segment's earned premiums, which are net of reinsurance ceded, for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Automobile	\$ 394	\$ 346	\$ 766	\$ 674
Homeowners	116	112	229	221
Other	9	8	17	16
Total earned premiums	\$ 519	\$ 466	\$ 1,012	\$ 911

2002 to 2001 Three Month Comparison. Revenues, as shown in the table above under “—Operating Results,” increased \$53 million, or 10%, from the second quarter of 2001 to the second quarter of 2002.

Total earned premiums, as shown in the immediately preceding table, increased by \$53 million, or 11%, from the second quarter of 2001 to the second quarter of 2002.

Automobile earned premiums increased by \$48 million, or 14%, from the second quarter of 2001 to the second quarter of 2002. This increase reflects a \$15 million increase in earned premiums resulting from a reduction in the provision for premium refunds or credits owed to certain New Jersey automobile policyholders under that state's excess profits regulations, which had been provided for during 2001. We do not expect that additional refunds or credits will be owed under such regulations for the 1999 to 2001 three-year rolling measurement period. The remainder of the increase in earned premiums is primarily from the retail, independent agent and non-standard auto distribution channels and reflects rate increases implemented during the second half of 2001 and the first six months of 2002.

Homeowners earned premiums increased \$4 million, or 4%, from the second quarter of 2001 to the second quarter of 2002 as a result of rate increases implemented during 2001.

2002 to 2001 Six Month Comparison. Revenues, as shown in the table above under “—Operating Results,” increased \$95 million, or 10%, from the first six months of 2001 to the first six months of 2002.

Total earned premiums, as shown in the immediately preceding table, increased by \$101 million, or 11%, from the first six months of 2001 to the first six months of 2002.

Automobile earned premiums increased by \$92 million, or 14%, from the first six months of 2001 to the first six months of 2002. This increase reflects the \$15 million reduction in refunds or credits to certain New Jersey automobile policyholders under insurance regulations based on profits generated from that business, as noted above. The remainder of the increase in earned premiums is primarily from the retail, independent agent and non-standard auto distribution channels.

Homeowners earned premiums increased \$8 million, or 4%, from the first six months of 2001 to the first six months of 2002 as a result of rate increases implemented during 2001.

Table of Contents

Benefits and Expenses

The following table shows our calendar year loss, expense and combined ratios, the impact on these calendar year ratios of current accident year catastrophe losses and our accident year combined ratios based on loss experience for the periods indicated (all based on statutory accounting principles).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Loss ratio(1):				
Automobile	75.1%	74.1%	75.4%	65.8%
Homeowners	87.8	60.2	80.0	69.8
Overall	78.3	70.5	76.6	66.3
Expense ratio(2):				
Automobile	27.2	31.2	27.9	31.6
Homeowners	31.7	34.8	33.3	38.4
Overall	28.2	32.0	29.0	33.1
Combined ratio(3):				
Automobile	102.3	105.3	103.3	97.4
Homeowners	119.5	95.0	113.3	108.2
Overall	106.5	102.5	105.6	99.4
Effect of current accident year catastrophe losses included in Combined ratio(4):	1.5	5.1	1.2	2.7
Accident year combined ratio(5):	—	—	107.1	109.1

- (1) Represents ratio of incurred losses and loss adjustment expenses to earned premiums. Ratios reflect the net favorable development in the calendar period from prior accident year reserves of \$13 million in the second quarter of 2002 and 2001, and of \$15 million in the first six months of 2002 and \$60 million in the first six months of 2001. Ratios also reflect recoveries from current accident year stop-loss reinsurance contracts of \$15 million in the second quarter of 2002 and \$44 million in the second quarter of 2001, and of \$35 million for the first six months of 2002 and \$68 million for the first six months of 2001.
- (2) Represents ratio of operating expenses to net written premiums.
- (3) Represents the sum of (1) and (2).
- (4) Represents losses and loss adjustment expenses attributable to catastrophes that are included in the combined ratio. This ratio includes current accident year catastrophes and excludes current calendar year development on catastrophe losses occurring in prior accident years. We classify as catastrophes those events that are declared catastrophes by Property Claims Services, which is an industry organization that declares and tracks all property-related catastrophes causing insured property damage in the United States. Property Claims Services declares an event a catastrophe if it causes in excess of a specified dollar amount of insured property damage, which was \$25 million throughout the periods presented, and affects a significant number of policyholders and insurance companies.
- (5) Accident year combined ratios reflect the combined ratios for accidents that occur in the indicated period, restated to reflect subsequent changes in loss estimates for those claims based on cumulative loss data through June 30, 2002. These ratios reflect the recoveries from stop-loss reinsurance contracts as noted above. We analyze accident year combined ratios because they reflect the actual loss experience of events that occur in a given period excluding the effect of events that occur in other periods. We do not calculate accident year combined ratios on other than a year-to-date basis.

2002 to 2001 Three Month Comparison. Our automobile loss ratio, as shown in the table immediately above, increased by 1.0 percentage points from the second quarter of 2001 to the second quarter of 2002. A \$30 million lower benefit from stop-loss recoveries was partially offset by \$7 million higher net benefit from favorable prior year development. Additionally, the loss ratio benefited from the \$15 million increase in earned premiums stemming from the reduction in the provision for premium refunds or credits to certain New Jersey policyholders, discussed above under “—Revenues”. Based on an evaluation conducted in 2001 of the quality of the new business produced through distribution channels we implemented in 1999 and 2000, we suspended our mailing solicitations for the direct distribution channel and limited the growth of business from some of our other distribution channels, commencing in the third quarter of 2001. In October 2001, we announced that we would no longer write business through our property and casualty insurance career agency channel except in a few

[Table of Contents](#)

selected markets. We are also in the process of re-underwriting and non-renewing business that has produced adverse loss experience to the extent permitted contractually and by state insurance regulations, and pursuing rate increases across our business. These efforts have not yet affected the loss ratio significantly, as the business produced prior to their implementation will continue to affect the accident year results until the associated premiums are fully earned. Our ability to implement re-underwriting and non-renewal measures has been limited by regulatory requirements in various jurisdictions. Consistent with our geographic market segmentation strategy, we have ceased writing new business in several states to further reduce our exposure to catastrophes consistent with our profitability objectives.

The increase in the homeowners' loss ratio from the second quarter of 2001 to the second quarter of 2002 was the result of increased severity of reported losses. Our stop-loss reinsurance recoveries resulted in decreases in the homeowners' combined ratio of 2.6 percentage points in the second quarter of 2002 and 1.8 percentage points in the second quarter of 2001.

Our total accident year catastrophe losses, net of reinsurance, amounted to \$8 million for the second quarter of 2002, compared to \$24 million for the second quarter of 2001.

Our overall expense ratio decreased from 32.0% in the second quarter of 2001 to 28.2% in the second quarter of 2002, as we incurred costs in 2001 to develop our distribution channels and benefited in 2002 from cost reduction initiatives and the favorable impact of the increased premium base.

2002 to 2001 Six Month Comparison. Our automobile loss ratio, as shown in the table immediately above, increased from the first six months of 2001 to the first six months of 2002 primarily due to lower net benefit from accident year reserve development and lower benefits from stop loss recoveries in the first six months of 2002.

The increase in the homeowners' loss ratio was primarily the result of increased severity of reported losses. Our stop-loss reinsurance recoveries resulted in decreases in the homeowners' combined ratio of 4.8 percentage points in the first six months of 2002 and 8.1 percentage points in the first six months of 2001.

Our accident year catastrophe losses, net of reinsurance, amounted to \$12 million for the first six months of 2002, compared to \$25 million for the first six months of 2001.

Losses that we ceded through reinsurance, including stop-loss reinsurance, as well as involuntary reinsurance pool mechanisms, resulted in decreases in the total combined ratio of 4.4 percentage points for the first six months of 2002 and 12.0 percentage points for the first six months of 2001.

Our overall expense ratio decreased from 33.1% in the first six months of 2001 to 29.0% in the first six months of 2002, as we incurred costs in 2001 to develop our distribution channels and benefited in 2002 period from cost reduction initiatives and the favorable impact of the increased premium base.

[Table of Contents](#)

Employee Benefits Division

Division Results

The following table and discussion present the Employee Benefits division's results based on our definition of adjusted operating income, which is a non-GAAP measure, as well as income from operations before income taxes, which is prepared in accordance with GAAP. See "—Consolidated Results of Operations" for a definition of adjusted operating income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Division operating results:				
Revenues(1)	\$ 1,597	\$ 1,471	\$ 3,121	\$ 2,932
Benefits and expenses(2)	1,503	1,419	2,961	2,776
Adjusted operating income	\$ 94	\$ 52	\$ 160	\$ 156
Adjusted operating income by segment:				
Group Insurance	\$ 36	\$ 9	\$ 73	\$ 56
Other Employee Benefits	58	43	87	100
Total	94	52	160	156
Items excluded from adjusted operating income:				
Realized investment gains, net of losses and related charges:				
Realized investment gains (losses) net	(176)	(27)	(209)	68
Related charges(3)	5	(2)	8	(4)
Total realized investment gains, net of losses and related charges	(171)	(29)	(201)	64
Income (loss) from operations before income taxes	\$ (77)	\$ 23	\$ (41)	\$ 220

(1) Revenues exclude realized investment gains, net of losses

(2) Benefits and expenses exclude the impact of net realized investment gains on deferred policy acquisition cost amortization and reserves

(3) Related charges consist of the following:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Reserves for future policy benefits	\$ 1	\$ (3)	\$ 3	\$ (3)
Amortization of deferred policy acquisition costs	4	1	5	(1)
Total	\$ 5	\$ (2)	\$ 8	\$ (4)

2002 to 2001 Three Month Comparison. Adjusted operating income of our Employee Benefits division increased \$42 million, or 81%, from the second quarter of 2001 to the second quarter of 2002 as a result of a \$27 million increase in adjusted operating income from our Group Insurance segment and a \$15 million increase from our Other Employee Benefits segment. Income from operations before income taxes decreased \$100 million from the second quarter of 2001 to the second quarter of 2002, reflecting a \$142 million increase in realized investment losses, net of gains and related charges partially offset by the increase in adjusted operating income. For a discussion of realized investment gains and losses, and charges related to realized investment gains and losses, see "—Consolidated Results of Operations—Realized Investment Gains."

2002 to 2001 Six Month Comparison. Adjusted operating income of our Employee Benefits division increased \$4 million, or 3%, from the first six months of 2001 to the first six months of 2002 as a result of a \$17

[Table of Contents](#)

million increase in adjusted operating income from our Group Insurance segment, partially offset by a \$13 million decrease from our Other Employee Benefits segment. Income from operations before income taxes decreased \$261 million from the first six months of 2001 to the first six months of 2002, reflecting a \$265 million decrease in realized investment gains, net of losses and related charges. For a discussion of realized investment gains and losses, and charges related to realized investment gains and losses, see “—Consolidated Results of Operations—Realized Investment Gains.”

Group Insurance

Operating Results

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Operating results:				
Revenues(1)	\$ 899	\$ 796	\$ 1,789	\$ 1,564
Benefits and expenses	863	787	1,716	1,508
Adjusted operating income	\$ 36	\$ 9	\$ 73	\$ 56

(1) Revenues exclude realized investment gains, net of losses.

Adjusted Operating Income

2002 to 2001 Three Month Comparison. Adjusted operating income increased \$27 million from \$9 million in the second quarter of 2001 to \$36 million in the second quarter of 2002. Adjusted operating income for the second quarter of 2001 included a \$13 million net charge for changes in our estimates of incurred but unreported claims and return premiums. Excluding these items, adjusted operating income increased \$14 million, primarily due to improved morbidity experience on group disability products.

2002 to 2001 Six Month Comparison. Adjusted operating income increased \$17 million, or 30%, from the first six months of 2001 to the first six months of 2002 primarily due to improved morbidity experience on group disability products.

Revenues

2002 to 2001 Three Month Comparison. Revenues, as shown in the table above under “—Operating Results,” increased by \$103 million, or 13%, from the second quarter of 2001 to the second quarter of 2002. Group life insurance premiums increased by \$66 million, or 13%, to \$560 million primarily due to growth in business in force resulting from new sales and continued strong persistency. Group disability premiums, which include long-term care products, increased by \$19 million, also reflecting the growth in business in force.

2002 to 2001 Six Month Comparison. Revenues increased by \$225 million, or 14%, from the first six months of 2001 to the first six months of 2002. Group life insurance premiums increased by \$150 million, or 16%, to \$1,114 million primarily due to growth in business in force resulting from new sales and continued strong persistency, which decreased from 99% in the first six months of 2001 to 96% in the first six months of 2002. We believe the decrease in persistency is primarily a result of the pricing adjustments commenced in 2002 discussed below. Group disability premiums, which include long-term care products, increased by \$37 million, also reflecting the growth in business in force. Persistency increased from 91% in the first six months of 2001 to 93% in the first six months of 2002, primarily due to the cancellation of a large case in the first six months of 2001. The remainder of the increase in revenues came primarily from higher fees on products sold to employers for funding of employee benefit programs and retirement arrangements, reflecting growth in this business.

Table of Contents

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 June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
Benefits ratio(1):				
Group life	92.8%	94.7%	92.3%	92.4%
Group disability	87.7	97.8	86.2	93.2
Administrative operating expense ratio(2):				
Group life	10.2	9.7	10.1	10.0
Group disability	22.8	25.2	22.7	23.5

(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.

2002 to 2001 Three Month Comparison. Benefits and expenses, as shown in the table above under “—Operating Results,” increased by \$76 million, or 10%, from the second quarter of 2001 to the second quarter of 2002. The increase resulted in large part from an increase of \$64 million, or 10%, in policyholders' benefits, including the change in policy reserves, reflecting the growth of business in force. Based on our evaluation of mortality experience during 2001, we reviewed our pricing policies to determine whether our pricing structure provides for adequate margins and returns on all of our group insurance products. As a result of this review, in the fourth quarter of 2001, we commenced pricing adjustments, when contractually permitted, which consider the deterioration of the benefits ratio on our group life insurance products since 2000. During the first six months of 2002, we reviewed about 30% of our 2001 group life insurance business premiums in force and, where appropriate, implemented pricing adjustments. We expect to review about half of our 2001 premiums in force by the end of 2002 and, where appropriate, implement pricing adjustments. While there can be no assurance, we expect these actions to result, over time, in a return to benefits ratios consistent with our profitability objectives. The implementation of these actions resulted in a modest decline in persistency on our group life insurance business in force and, consistent with our expectations, some slowing of our sales. An increase of \$11 million, or 10%, in operating expenses also contributed to the increase in benefits and expenses. The increase in operating expenses, from \$110 million in the second quarter of 2001 to \$121 million in the second quarter of 2002, resulted primarily from the growth in business in force as well as continued business process improvement costs.

The group life benefits ratio for the second quarter of 2002 decreased 1.9 percentage points from the second quarter of 2001 due primarily to the \$13 million net charge in the second quarter of 2001 for changes in our estimates of incurred but unreported claims and return premiums. The group disability benefits ratio improved by 10.1 percentage points from the second quarter of 2001 to the second quarter of 2002 reflecting better morbidity experience, which we attribute to accelerated case resolution and our ongoing efforts to improve the quality of our underwriting and claims management processes. The group life insurance administrative operating expense ratio remained relatively flat while the group disability administrative operating expense ratio improved 2.4 percentage points, reflecting the impact of our efforts to improve operational efficiencies.

2002 to 2001 Six Month Comparison. Benefits and expenses increased by \$208 million, or 14%, from the first six months of 2001 to the first six months of 2002. The increase resulted in large part from an increase of \$176 million, or 15%, in policyholders' benefits, including the change in policy reserves, reflecting the growth of business in force. An increase of \$27 million, or 12%, in operating expenses also contributed to the increase in benefits and expenses. The increase in operating expenses, from \$219 million in the first six months of 2001 to \$246 million in the first six months of 2002, resulted primarily from the growth in business in force and related sales-based compensation costs as well as continued business process improvement costs.

Table of Contents

The group life benefits ratio for the first six months of 2002 remained relatively unchanged from the first six months of 2001. We estimate that our 2002 pricing adjustments reduced the period's group life benefits ratio by 0.5 percentage points. The group disability benefits ratio improved by 7.0 percentage points from the first six months of 2001 to the first six months of 2002 reflecting better morbidity experience, which we attribute to accelerated case resolution and our ongoing efforts to improve the quality of our underwriting and claims management processes. The group life insurance administrative operating expense ratio remained relatively flat while the group disability administrative operating expense ratio improved 0.8 percentage points, reflecting the impact of our efforts to improve operational efficiencies.

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 GAAP, as well as revenues, because new annualized premiums measure the current sales performance of the business unit, while revenues 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 June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
New annualized premiums:(1)				
Group life	\$ 27	\$ 33	\$ 189	\$ 321
Group disability(2)	33	20	86	89
Total	\$ 60	\$ 53	\$ 275	\$ 410

(1) Amounts exclude new premiums resulting from rate changes on existing policies, from additional coverage issued 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. Sales results for the 2001 periods give effect to quarterly allocation consistent with our current reporting practices.

(2) Includes long-term care products.

2002 to 2001 Three Month Comparison. Total new annualized premiums increased \$7 million, or 13%, from the second quarter of 2001 to the second quarter of 2002, due to an increase in group disability sales. The group disability sales increase came from an increase in sales to new customers. Group life sales decreased primarily due to the impact of pricing adjustments.

2002 to 2001 Six Month Comparison. Total new annualized premiums decreased \$135 million, or 33%, from the first six months of 2001 to the first six months of 2002 due primarily to a decrease in group life sales. The group life sales decrease came from a decrease of \$166 million in sales to new customers reflecting a sale of \$99 million to one large customer in the first six months of 2001 and the expected slowing of our sales due to the commencement of pricing adjustments in 2002, partially offset by increased sales to existing customers. Group disability sales decreased primarily due to the impact that the group life insurance pricing adjustments had on our bundled group life and disability products.

[Table of Contents](#)

Other Employee Benefits

Operating Results

The following table sets forth the Other Employee Benefits segment's operating results for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Operating results:				
Revenues(1)	\$ 698	\$ 675	\$ 1,332	\$ 1,368
Benefits and expenses(2)	640	632	1,245	1,268
Adjusted operating income	\$ 58	\$ 43	\$ 87	\$ 100

(1) Revenues exclude realized investment gains, net of losses.

(2) Benefits and expenses exclude the impact of net realized investment gains on reserves and deferred policy acquisition cost amortization.

Adjusted Operating Income

2002 to 2001 Three Month Comparison. Adjusted operating income increased \$15 million, or 35%, from the second quarter of 2001 to the second quarter of 2002. Adjusted operating income from our guaranteed products business increased \$16 million. An increase of \$14 million in adjusted operating income from our real estate and relocation business, which reported a \$7 million loss in the year-ago quarter primarily due to costs to consolidate its operating facilities, was largely offset by a decrease from our full service defined contribution business which incurred costs in the second quarter of 2002 associated with its exiting or outsourcing certain small case business.

Our guaranteed products business reported adjusted operating income of \$65 million in the second quarter of 2002, an increase of \$16 million from the second quarter of 2001. The increase of \$16 million is primarily due to the recognition of income of \$30 million in the second quarter of 2002 from a mortgage loan prepayment, partially offset by lower investment results.

2002 to 2001 Six Month Comparison. Adjusted operating income decreased \$13 million, or 13%, from the first six months of 2001 to the first six months of 2002. The \$13 million decrease reflected declines in adjusted operating income of \$11 million from our guaranteed products business and \$13 million from our full service defined contribution business. The decline in adjusted operating income from our defined contribution business reflected lower yields on invested assets as well as costs to exit or outsource certain small case business. An increase in adjusted operating income of \$17 million from our real estate and relocation business partially offset these declines. The increase in adjusted operating income from our real estate and relocation business is primarily a result of expenses incurred in the first six months of 2001 related to the consolidation of operating facilities.

Our guaranteed products business reported adjusted operating income of \$103 million in the first six months of 2002, a decrease of \$11 million from the first six months of 2001. The decrease of \$11 million is primarily due to lower investment results in the 2002 period, reflecting a decline in yields on invested assets, partially offset by income of \$30 million from a mortgage loan prepayment.

Revenues

2002 to 2001 Three Month Comparison. Revenues, as shown in the table above under "—Operating Results," increased \$23 million, or 3%, from the second quarter of 2001 to the second quarter of 2002. Premiums

[Table of Contents](#)

increased \$18 million on our guaranteed products business as a result of one single premium annuity sale. The effects of this sale are offset in benefits and expenses. Net investment income in the second quarter of 2002 included income of \$30 million from a mortgage loan prepayment; however, this was offset by a decline in yields on invested assets and lower general account balances.

2002 to 2001 Six Month Comparison. Revenues decreased \$36 million, or 3%, from the first six months of 2001 to the first six months of 2002. Net investment income decreased \$61 million, or 5%, from \$1.120 billion in the first six months of 2001 to \$1.059 billion in the first six months of 2002. The decrease in net investment income is due to a decline in yields on invested assets and lower general account balances, partially offset by the \$30 million income from a mortgage loan prepayment. Premiums increased \$8 million on our guaranteed products business as a result of single premium annuity transaction, partially offset by lower deposits of general account group annuity products. Revenues from relocation activities increased \$25 million in the first six months of 2002 due to a subsidiary we acquired in the fourth quarter of 2001.

Benefits and Expenses

2002 to 2001 Three Month Comparison. Benefits and expenses, as shown in the table above under “—Operating Results,” increased \$8 million, or 1%, from the second quarter of 2001 to the second quarter of 2002. Policyholders’ benefits, together with the change in policy reserves and interest credited to policyholders, increased \$5 million from the second quarter of 2001 to the second quarter of 2002 due to the single premium annuity transaction noted above.

2002 to 2001 Six Month Comparison. Benefits and expenses decreased \$23 million, or 2%, from the first six months of 2001 to the first six months of 2002. Policyholders’ benefits, together with the change in policy reserves and interest credited to policyholders, decreased \$30 million from the first six months of 2001 to the first six months of 2002 reflecting our maturing block of group annuity business consistent with the decline in income on invested assets, partially offset by the single premium annuity transaction noted above. Expenses from our real estate and relocation business increased \$8 million as a result of operating expenses of \$19 million from a subsidiary we acquired in the fourth quarter of 2001, partially offset by a decrease in expenses related to the consolidation of operating facilities.

Table of Contents

Sales Results and Assets Under Management

The following table shows the changes in the account values and net sales of Other Employee Benefits segment products for the periods indicated. Net sales are total sales minus withdrawals or withdrawals and benefits, as applicable. As noted above under “—U.S. Consumer Division—Retail Investments—Sales Results and Assets Under Management,” neither sales nor net sales are revenues under GAAP.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Defined Contribution:				
Beginning total account value	\$ 25,337	\$ 24,473	\$ 24,640	\$ 26,046
Sales	904	923	1,914	2,178
Withdrawals	(755)	(1,021)	(1,572)	(2,056)
Change in market value, interest credited and other activity(1)	(1,450)	944	(946)	(849)
Ending total account value	\$ 24,036	\$ 25,319	\$ 24,036	\$ 25,319
Net sales	\$ 149	\$ (98)	\$ 342	\$ 122
Guaranteed Products(2):				
Beginning total account value	\$ 39,400	\$ 40,461	\$ 39,825	\$ 41,577
Sales	506	1,181	765	1,581
Withdrawals and benefits	(993)	(877)	(1,857)	(2,446)
Change in market value, interest income	395	646	750	972
Other(3)	(136)	(1,491)	(311)	(1,764)
Ending total account value	\$ 39,172	\$ 39,920	\$ 39,172	\$ 39,920
Net sales	\$ (487)	\$ 304	\$ (1,092)	\$ (865)

- (1) The second quarter of 2002 includes increases to account values of \$247 million added to customer accounts due to Common Stock received as demutualization consideration. The first six months of 2002 includes increases to account values of \$348 million added to customer accounts due to Common Stock received as demutualization consideration and increases to account values of \$448 million added to customer accounts from inclusion of amounts not previously reflected in this segment.
- (2) Prudential's retirement plan accounted for 24% of sales in the second quarter of 2002, and 11% of sales for the second quarter of 2001. Prudential's retirement plan accounted for 29% of sales in the first six months of 2002, and 24% of sales for the first six months of 2001. Ending total account value includes assets of Prudential's retirement plan of \$8.7 billion at June 30, 2002 and \$8.6 billion at June 30, 2001.
- (3) Represents changes in asset balances for externally managed accounts.

2002 to 2001 Three Month Comparison. Assets under management in our full service defined contribution business amounted to \$24.0 billion at June 30, 2002, a decrease of \$1.3 billion, or 5%, from March 31, 2002. The decrease came primarily from a decline in market value of mutual funds reflecting the general downturn of the equity markets, partially offset by net sales of \$149 million. Assets under management increased \$846 million, or 3%, in the second quarter of 2001, primarily due to appreciation in market value of mutual funds reflecting positive equity markets during the quarter.

Assets under management for guaranteed products remained relatively flat for the quarter. Assets amounted to \$39.2 billion at June 30, 2002, a decrease of \$228 million, or 1%, from March 31, 2002.

2002 to 2001 Six Month Comparison. Assets under management in our full service defined contribution business decreased \$604 million, or 2%, from December 31, 2001. The decrease came primarily from a decline in market value of mutual funds reflecting the general downturn of the equity markets, partially offset by \$796

Table of Contents

million added to customer accounts from inclusion of amounts not previously reflected in this segment and Common Stock received as demutualization consideration as well as net sales of \$342 million. Assets under management decreased \$727 million, or 3%, in the first six months of 2001, primarily due a decline in market value of mutual funds reflecting the general downturn of the equity markets in the first quarter of 2001, partially offset by net sales of \$122 million.

Assets under management for guaranteed products decreased \$653 million, or 2%, from December 31, 2001. The decrease from December 31, 2001 is primarily due to a decrease in separate account annuity assets that reflected over \$600 million of annuity benefits.

International Division

The following table and discussion present the International division's results based on our definition of adjusted operating income, which is a non-GAAP measure, as well as income from operations before income taxes, which is prepared in accordance with GAAP. See "—Consolidated Results of Operations" for a definition of adjusted operating income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Division operating results:				
Revenues(1)	\$ 1,382	\$ 1,191	\$ 2,768	\$ 1,863
Benefits and expenses(2)	1,206	1,071	2,392	1,645
Adjusted operating income	\$ 176	\$ 120	\$ 376	\$ 218
Adjusted operating income by segment:				
International Insurance	\$ 187	\$ 142	\$ 391	\$ 237
International Securities and Investments	(11)	(22)	(15)	(19)
Total	176	120	376	218
Items excluded from adjusted operating income:				
Realized investment gains (losses) net	(25)	36	(111)	42
Related charges(3)	(10)	(3)	(9)	(3)
Total realized investment gains, net of losses and related charges	(35)	33	(120)	39
Income from operations before income taxes	\$ 141	\$ 153	\$ 256	\$ 257

(1) Revenues exclude realized investment gains, net of losses.

(2) Benefits and expenses exclude the impact of realized investment gains, net of losses, on dividends to policyholders.

(3) Related charges consist of the portion of dividends to policyholders attributable to realized investment gains, net of losses.

2002 to 2001 Three Month Comparison. Adjusted operating income of our International division increased \$56 million from the second quarter of 2001 to the second quarter of 2002. The increase came from an increase of \$45 million in adjusted operating income from our International Insurance segment, including \$42 million from Gibraltar Life, which we acquired in April 2001, as discussed below. Additionally, our International Securities and Investments segment adjusted operating income increased \$11 million. Income from operations before income taxes decreased \$12 million, or 8%, from the second quarter of 2001 to the second quarter of 2002 as the increase in adjusted operating income was largely offset by a \$68 million decrease in realized investment gains, net of losses and related charges. For a discussion of realized investment gains and losses, and charges related to realized investment gains and losses, see "—Consolidated Results of Operations—Realized Investment Gains."

Table of Contents

2002 to 2001 Six Month Comparison. Adjusted operating income of our International division increased \$158 million from the first six months of 2001 to the first six months of 2002. The increase came from an increase of \$154 million in adjusted operating income from our International Insurance segment, including \$146 million from Gibraltar Life, which we acquired in April 2001, as discussed below. Additionally, our International Securities and Investments segment adjusted operating income increased \$4 million. Income from operations before income taxes was \$256 million for the first six months of 2002, essentially unchanged from the first six months of 2001, as the increase in adjusted operating income was largely offset by a \$159 million decrease in realized investment gains, net of losses and related charges. For a discussion of realized investment gains and losses, and charges related to realized investment gains and losses, see “—Consolidated Results of Operations—Realized Investment Gains.”

International Insurance

Our international insurance operations are subject to currency fluctuations that can materially affect the U.S. dollar results of our international insurance operations from period to period even if results on a local currency basis are relatively constant. Exchange rates fluctuated significantly in the first six months of 2002 and 2001. The financial results of our International Insurance segment reflect the impact of forward currency transactions designed to mitigate the risks of adverse changes in currency exchange rates. We have translated all information in this section on the basis of actual exchange rates, including the impact of the forward currency transactions. To achieve a better understanding of local operating performance, where indicated below, we analyze results both on the basis of translated results based on actual exchange rates and on the basis of local results translated at a constant exchange rate. When we discuss constant exchange rate information below, we translated on the basis of the average exchange rates for the year ended December 31, 2001.

Operating Results

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Operating results:				
Revenues(1)				
International Insurance, excluding Gibraltar Life	\$ 565	\$ 506	\$ 1,131	\$ 1,027
Gibraltar Life	683	548	1,366	548
	<u>1,248</u>	<u>1,054</u>	<u>2,497</u>	<u>1,575</u>
Benefits and expenses				
International Insurance, excluding Gibraltar Life	479	423	945	849
Gibraltar Life(2)	582	489	1,161	489
	<u>1,061</u>	<u>912</u>	<u>2,106</u>	<u>1,338</u>
Adjusted operating income	<u>\$ 187</u>	<u>\$ 142</u>	<u>\$ 391</u>	<u>\$ 237</u>

(1) Revenues exclude realized investment gains, net of losses.

(2) Benefits and expenses for Gibraltar Life exclude the portion of net realized investment gains required to be paid as dividends to policyholders.

Adjusted Operating Income

2002 to 2001 Three Month Comparison. Adjusted operating income increased \$45 million from the second quarter of 2001 to the second quarter of 2002, including a \$42 million greater contribution from Gibraltar

[Table of Contents](#)

Life including an additional month of earnings as the year-ago quarter includes its initial two months of reported results, from the April 2, 2001 date of reorganization, through May 31, 2001.

Adjusted operating income for Gibraltar Life increased \$42 million, from \$59 million for the second quarter of 2001, representing Gibraltar Life's initial two months results, to \$101 million for the second quarter of 2002. Gibraltar Life's adjusted operating income of \$101 million for the second quarter of 2002 reflects charges from refinements of estimates, primarily of amounts due to policyholders, and gains from policy surrenders. The net effect of these items reduced Gibraltar Life's adjusted operating income by \$20 million. Gibraltar Life's second quarter 2002 results also reflect continued favorable mortality experience that largely offset the \$20 million charge above.

Gibraltar Life's \$101 million adjusted operating income reported for the second quarter of 2002 reflected revenues of \$683 million and benefits and expenses of \$582 million, which included expenses of approximately \$25 million related to the refinements of estimates noted above, which considered Gibraltar Life's first full year of operations following its reorganization. Gibraltar Life's revenues were comprised primarily of \$539 million of premiums, policy charges and fees and \$126 million net investment income, and its benefits and expenses were comprised of \$447 million of policyholders' benefits, including changes in reserves, interest credited to policyholders' account balances, and dividends to policyholders and \$135 million of operating expenses including distribution costs. Gibraltar Life's results in the second quarter of 2002 reflect favorable mortality and surrender experience as well as improved investment results reflecting improved asset yields. As a result of Gibraltar Life's emergence from reorganization proceedings in April 2001 and the reduction in benefits for in force policies, when we established Gibraltar Life's initial liability for future policy benefits, we assumed a higher than normal level of policy surrenders for the near term. Our surrender rate assumptions for Gibraltar Life's years of operations, commencing at the date of reorganization, are 6% in the first year and 4% thereafter for paid-up policies and 2% to 38% in the first year, 3% to 14% in the second year and 6% to 10% thereafter for premium paying policies. Gibraltar Life's adjusted operating income included in our results for the second quarter of 2002 benefited by about \$5 million from the deviation of policy surrenders from our initial assumptions. Future surrender experience in the near term may be significantly different from the levels we assumed, and our future adjusted operating income will be sensitive to differences in actual surrender experience from our assumptions, particularly during an initial period of about two years from the date of reorganization. We estimate that every 1% of in force policies that are surrendered in excess of our assumed level would contribute \$40 to \$50 million to our adjusted operating income for the period of the surrenders, and conversely that for every 1% of in force policies that are surrendered below our assumed level, our reported adjusted operating income would be negatively affected by \$40 to \$50 million.

Adjusted operating income from our international insurance operations other than Gibraltar Life increased \$3 million from the second quarter of 2001 to the second quarter of 2002. The increase came from improved results both from our Japanese insurance operations and our operations in countries other than Japan. Our Japanese insurance operations reported adjusted operating income of \$72 million for the second quarter of 2002 compared to \$70 million for the second quarter of 2001, as business growth and continued strong persistency were largely offset by the effect of currency fluctuations. Our operations in countries other than Japan resulted in adjusted operating income of \$14 million in the second quarter of 2002, approximately unchanged from the year-ago quarter, as results for the year-ago quarter included an \$8 million benefit from a refinement in the methodology used to calculate reserves in our Korean operations, while the current quarter reflected continued growth from our operations in Korea reflecting strong sales and favorable persistency. Excluding the impact of the reserve refinement in the second quarter of 2001 and the currency fluctuations, our international insurance operations other than Gibraltar Life would have had a 23% increase in adjusted operating income over the year-ago quarter.

The segment's increase in adjusted operating income includes the effect of year over year fluctuations in currency exchange rates as well as the impact of our hedging at expected exchange rates. On a constant exchange

[Table of Contents](#)

rate basis and excluding the impact of currency hedging, adjusted operating income, including results of Gibraltar Life, increased \$47 million.

2002 to 2001 Six Month Comparison. Adjusted operating income increased \$154 million from the first six months of 2001 to the first six months of 2002, including a \$146 million greater contribution from Gibraltar Life for which the year-ago period includes its initial two months of reported results, from the April 2, 2001 date of reorganization, through May 31, 2001.

Adjusted operating income for Gibraltar Life increased \$146 million from \$59 million for the first six months of 2001 to \$205 million for the first six months of 2002, reflecting the inclusion of Gibraltar Life results for two months of the 2001 period compared to the first six months of 2002. Gibraltar Life's adjusted operating income of \$205 million for the first six months of 2002 reflects charges from refinements of estimates, primarily of amounts due to policyholders, and gains from policy surrenders. The net effect of these items reduced Gibraltar Life's adjusted operating income by \$19 million. Gibraltar Life's results for the first six months of 2002 also reflect continued favorable mortality experience.

Gibraltar Life's \$205 million adjusted operating income reported for the first six months of 2002 reflected revenues of \$1.366 billion and benefits and expenses of \$1.161 billion, which included expenses of approximately \$25 million related to the refinements of estimates noted above, which considered Gibraltar Life's first full year of operations following its reorganization. Gibraltar Life's revenues were comprised primarily of \$1.097 billion of premiums, policy charges and fees and \$235 million of net investment income, and its benefits and expenses were comprised of \$897 million of policyholders' benefits, including changes in reserves, interest credited to policyholders' account balances, and dividends to policyholders and \$264 million of operating expenses, including distribution costs. Gibraltar Life's results in the first six months of 2002 reflect favorable mortality, as well as improved investment results reflecting the transition from short-term investments held during the initial period following the reorganization due to anticipated surrender activity to longer-term investments consistent with our asset-liability management strategies.

Adjusted operating income, excluding the impact of the Gibraltar Life acquisition discussed above, increased \$8 million, or 4%, from the first six months of 2001 to the first six months of 2002. The increase came from improved results from our operations in countries other than Japan. The contribution from continued growth of our existing Japanese insurance operations was more than offset in the current period by the negative impact of currency exchange rates, including the impact of our currency hedging, and a loss from the termination of a large case that provided individual life insurance coverage to multiple employees of an organization. Our operations in countries other than Japan increased \$9 million, from \$4 million for the first six months of 2001 to \$13 million for the first six months of 2002, as increased profits from our operations in Korea, reflecting strong sales and continued favorable persistency offset continued costs of expansion into other countries and the \$8 million benefit to results of the year-ago period from a refinement in the methodology used to calculate reserves in our Korean operations. Excluding the impact of the reserve refinement in the first six months of 2001 and the currency fluctuations, our international insurance operations other than Gibraltar Life would have had a 19% increase in adjusted operating income over the same period of the prior year.

Our Japanese insurance operations, excluding Gibraltar Life, reported adjusted operating income of \$173 million in the first six months of 2002, compared to \$174 million in the first six months of 2001. Results for the first six months of 2002 for our Japanese insurance operations reflect a negative impact of about \$11 million from currency fluctuations, including the effect of our currency hedging, as well as a \$6 million loss from termination of a large case that provided individual life insurance coverage to multiple employees of an organization during the first quarter of 2002.

The segment's increase in adjusted operating income includes the effect of year over year fluctuations in currency exchange rates as well as the impact of our hedging at expected exchange rates. On a constant exchange rate basis and excluding the impact of currency hedging, adjusted operating income, including results of Gibraltar Life, increased \$160 million.

[Table of Contents](#)

Revenues

2002 to 2001 Three Month Comparison. Revenues, as shown in the table above under “—Operating Results,” increased \$194 million from the second quarter of 2001 to the second quarter of 2002, including \$135 million from Gibraltar Life. Excluding the impact of Gibraltar Life, revenues increased \$59 million, or 12%, from the second quarter of 2001 to the second quarter of 2002. The \$59 million increase in revenues came primarily from an increase in premium income of \$56 million, or 13%, from \$439 million in the second quarter of 2001 to \$495 million in the second quarter of 2002. Premiums from our Korean operations increased \$39 million, from \$67 million in the second quarter of 2001 to \$106 million in the second quarter of 2002, as a result of increased sales and strong persistency. Premiums in all other countries remained essentially unchanged from the second quarter of 2001 as compared to the second quarter of 2002, primarily as a result of the negative impact of currency exchange rate fluctuations on our existing business in Japan, for which premiums increased 7% over the year-ago quarter absent the impact of these fluctuations. On a constant exchange rate basis and excluding the impact of currency hedging, total segment revenues increased \$238 million, or 23%, from the second quarter of 2001 to the second quarter of 2002.

2002 to 2001 Six Month Comparison. Revenues increased \$922 million from the first six months of 2001 to the first six months of 2002, including \$818 million from Gibraltar Life. Excluding the impact of Gibraltar Life, revenues increased \$104 million, or 10%, from the first six months of 2001 to the first six months of 2002. The \$104 million increase in revenues came primarily from an increase in premium income of \$88 million, or 10%, from \$893 million in the first six months of 2001 to \$981 million in the first six months of 2002. Premiums from our Korean operations increased \$71 million, from \$125 million in the first six months of 2001 to \$196 million in the first six months of 2002, as a result of increased sales and strong persistency. Premiums in all other countries remained essentially unchanged from the first six months of 2001 to the first six months of 2002, primarily as a result of the negative impact of currency exchange rate fluctuations on our existing business in Japan, for which premiums increased 9% over the year-ago quarter absent the impact of these fluctuations. On a constant exchange rate basis and excluding the impact of currency hedging, total segment revenues increased \$1.068 billion, or 69%, from the first six months of 2001 to the first six months of 2002, for which the year-ago period includes the initial two months of activity of Gibraltar Life, from the April 2, 2001, date of reorganization through May 31, 2001.

Benefits and Expenses

2002 to 2001 Three Month Comparison. Benefits and expenses, as shown in the table above under “—Operating Results,” increased \$149 million from the second quarter of 2001 to the second quarter of 2002, including \$93 million from Gibraltar Life. Excluding the impact of the Gibraltar Life acquisition, benefits and expenses increased \$56 million, or 13%, from the second quarter of 2001 to the second quarter of 2002. The \$56 million increase in benefits and expenses came primarily from an increase of \$35 million in policyholders’ benefits, which includes the change in reserves for future policy benefits. Policyholders’ benefits increased from \$337 million in the second quarter of 2001 to \$372 million in the second quarter of 2002. The increase resulted from the greater volume of business in force, which was driven by new sales, continued strong persistency and the aging of business in force in markets where our operations are more mature, partially offset by the impact of currency exchange rate fluctuations. On a constant exchange rate basis, total segment benefits and expenses increased \$191 million.

2002 to 2001 Six Month Comparison. Benefits and expenses increased \$768 million from the first six months of 2001 to the first six months of 2002, including \$672 million from Gibraltar Life. Excluding the impact of the Gibraltar Life acquisition, benefits and expenses increased \$96 million, or 11%, from the first six months of 2001 to the first six months of 2002. The \$96 million increase in benefits and expenses came primarily from an increase of \$54 million in policyholders’ benefits, which includes the change in reserves for future policy benefits. Policyholders’ benefits increased from \$674 million in the first six months of 2001 to \$728 million in the first six months of 2002. The increase reflected a greater volume of business in force, which was driven by

[Table of Contents](#)

new sales, continued strong persistency and the aging of business in force in markets where our operations are more mature, partially offset by the impact of currency exchange rate fluctuations. On a constant exchange rate basis, total segment benefits and expenses increased \$908 million.

Sales Results

In managing our international insurance business, we analyze new annualized premiums, which do not correspond to revenues under GAAP, as well as revenues, because new annualized premiums measure the current sales performance of the business unit, while revenues reflect the renewal persistency and aging of in force policies written in prior years and net investment income in addition to current sales.

2002 to 2001 Three Month Comparison. New annualized premiums increased \$15 million, or 9%, from \$162 million in the second quarter of 2001 to \$177 million in the second quarter of 2002, including \$49 million from Gibraltar Life and reflecting the unfavorable impact of currency exchange rate fluctuations. On a constant exchange rate basis, new annualized premiums increased \$17 million, or 10%, from the second quarter of 2001 to the second quarter of 2002, including \$53 million from Gibraltar Life. On that basis, new annualized premiums from our operations in Japan were \$132 million in the second quarter of 2002, including \$63 million from Gibraltar Life, compared to \$103 million in the second quarter of 2001. Sales in Japan, other than Gibraltar, were particularly strong in the year-ago period due to policies sold in anticipation of premium rate increases.

2002 to 2001 Six Month Comparison. New annualized premiums increased \$32 million, or 10%, from \$324 million in the first six months of 2001 to \$356 million in the first six months of 2002, including \$98 million from Gibraltar Life and reflecting the unfavorable impact of currency exchange rate fluctuations. On a constant exchange rate basis, new annualized premiums increased \$51 million, or 16%, from the first six months of 2001 to the first six months of 2002, including \$106 million from Gibraltar Life. On that basis, new annualized premiums from our operations in Japan were \$269 million in the first six months of 2002, including \$116 million from Gibraltar Life, compared to \$214 million in the first six months of 2001 when Gibraltar Life's sales force sold policies for our existing Japanese insurance operation pending the completion of Gibraltar Life's reorganization. Since the first quarter of 2001, the Gibraltar Life sales force has distributed only Gibraltar Life products. Sales in Japan during the first three months of 2001 were particularly strong due to anticipated premium rate increases that took effect on April 1, 2001. Sales in all other countries, also on a constant exchange rate basis, decreased \$4 million as a result of a decrease from our operations in Taiwan partially offset by an increase from our operations in Korea.

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. 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. Interest rates guaranteed in our Japanese insurance contracts are regulated by Japanese authorities. Between July 1, 1996 and April 1, 1999, we guaranteed premium rates using an interest rate of 3.1% on most of the products we sold even though the yield on Japanese government and high-quality corporate bonds was less than that much of this time. This resulted in some negative investment spreads over this period. As a consequence, our profitability with respect to these products in Japan during that period resulted primarily from margins on mortality charges and expenses. In response to the low interest rate environment, Japanese regulators approved a reduction in the required rates for most of the products we sell to 2.35% in April 1999, which has allowed us to charge higher premiums on new business for the same amount of insurance. While this has also resulted in an improvement in investment spreads, these spreads had a negative impact on adjusted operating income from our Japanese insurance operations other than Gibraltar Life in the first six months of 2002 and 2001 and the profitability of these products in Japan continues to result primarily from margins on mortality charges and expenses. In 2001, Japanese regulators approved further reductions in the required interest rates applicable to most of the products we sell. As a result, we increased premium rates on most of our products sold in Japan when

[Table of Contents](#)

the new rates were implemented, in April 2001 for some products and in October 2001 for other products. Additionally, interest rates on our guaranteed products sold in Korea are regulated by Korean authorities, who approved, in April 2001, a reduction in the required rates for most of the products we sell, allowing us to charge higher premiums on new business for the same amount of insurance. While these actions enhance our ability to set rates commensurate with available investment returns, the major sources of profitability on our products in Korea, as in Japan, are margins on mortality and expense charges rather than investment spreads.

We base premiums and cash values in the countries in which we operate on mandated mortality tables. Our mortality experience in the International Insurance segment on an overall basis for the first six months of 2002 and 2001 was well within our pricing assumptions and below the guaranteed levels reflected in the premiums we charge.

International Securities and Investments

Operating Results

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Operating results:				
Revenues	\$ 134	\$ 137	\$ 271	\$ 288
Expenses	145	159	286	307
Adjusted operating income	\$ (11)	\$ (22)	\$ (15)	\$ (19)

Adjusted Operating Income

2002 to 2001 Three Month Comparison. The International Securities and Investments segment reported losses, on an adjusted operating income basis, of \$11 million for the second quarter of 2002 and \$22 million for the second quarter of 2001. The \$11 million reduction in the loss came primarily from our international investments operations, which reported a loss of \$4 million for the second quarter of 2002 compared to a loss of \$12 million for the second quarter of 2001, primarily as a result of lower expenses reflecting our earlier actions to reduce the cost structure. Losses from our international securities operations, including our futures operations, decreased \$3 million in the second quarter of 2002 from the second quarter of 2001, reflecting decreased expenses from cost saving measures implemented in 2001.

2002 to 2001 Six Month Comparison. The International Securities and Investments segment reported a loss, on an adjusted operating income basis, of \$15 million for the first six months of 2002 compared to a loss of \$19 million for the first six months of 2001. The \$4 million reduction in the loss came from our international investments operations, which reported a loss of \$10 million for the first six months of 2002 compared to a loss of \$18 million for the first six months of 2001, primarily as a result of lower expenses reflecting our earlier actions to reduce the cost structure. Partially offsetting the reduction in that operation's loss was a \$4 million increase in losses from our international securities operations, including our futures operations, in the first six months of 2002 from the first six months of 2001, reflecting a decline in client transaction volume partially offset by a decrease in expenses from cost saving measures implemented in 2001.

Revenues

2002 to 2001 Three Month Comparison. Revenues, as shown in the table above under "—Operating Results," decreased \$3 million, or 2%, from the second quarter of 2001 to the second quarter of 2002. The

[Table of Contents](#)

decrease came from a \$9 million decrease in revenues from our international securities operations, which include our futures operations. The \$9 million decrease came primarily from lower commission revenues associated with less active U.S. equity markets and reduced retail and institutional transactional volumes. Revenues from our international investments operations increased \$6 million, primarily from asset management fees and commissions earned by recently acquired units.

2002 to 2001 Six Month Comparison. Revenues decreased \$17 million, or 6%, from the first six months of 2001 to the first six months of 2002. The decrease came from a \$29 million decrease in revenues from our international securities operations, which include our futures operations. The \$29 million decrease came primarily from lower commission revenues associated with less active U.S. equity markets and reduced retail and institutional transactional volumes. Revenues from our international investments operations increased \$12 million, primarily from asset management fees and commissions earned by recently acquired units.

Expenses

2002 to 2001 Three Month Comparison. Expenses, as shown in the table above under “—Operating Results,” decreased \$14 million, or 9%, from the second quarter of 2001 to the second quarter of 2002. The majority of the variance is a result of expenses for our international securities operations which decreased \$12 million, due to decreases in revenue-based costs as well as cost saving measures implemented in 2001.

2002 to 2001 Six Month Comparison. Expenses decreased \$21 million, or 7%, from the first six months of 2001 to the first six months of 2002. Expenses of our international securities operations decreased \$25 million, due primarily to decreases in revenue-based costs. Expenses of our international investments operations increased \$4 million, reflecting expenses from recently acquired units.

Asset Management Division

The following table and discussion present the Asset Management division’s results based on our definition of adjusted operating income, which is a non-GAAP measure, as well as income from operations before income taxes, which is prepared in accordance with GAAP. See “—Consolidated Results of Operations” for a definition of adjusted operating income.

Division Results

The following table sets forth the Asset Management division’s results for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Division operating results:				
Revenues(1)	\$ 299	\$ 310	\$ 590	\$ 639
Expenses	243	278	471	529
Adjusted operating income	\$ 56	\$ 32	\$ 119	\$ 110
Adjusted operating income by segment:				
Investment Management and Advisory Services	\$ 33	\$ 23	\$ 72	\$ 57
Other Asset Management	23	9	47	53
Total	56	32	119	110
Items excluded from adjusted operating income:				
Realized investment gains (losses), net	2	(10)	61	(9)
Income from operations before income taxes	\$ 58	\$ 22	\$ 180	\$ 101

(1) Revenues exclude realized investment gains, net of losses.

Table of Contents

2002 to 2001 Three Month Comparison. Adjusted operating income of our Asset Management division increased \$24 million in the second quarter of 2002 due to a \$14 million increase in adjusted operating income in the Other Asset Management segment and a \$10 million increase in adjusted operating income in our Investment Management and Advisory Services segment. Income from operations before income taxes increased \$36 million in the second quarter of 2002 due to the \$24 million increase in adjusted operating income as well as realized investment gains of \$2 million in the second quarter of 2002, compared to \$10 million of realized investment losses in the second quarter of 2001. For a discussion of realized investment gains and losses see “—Consolidated Results of Operations—Realized Investment Gains.”

2002 to 2001 Six Month Comparison. Adjusted operating income of our Asset Management division increased \$9 million in the first six months of 2002 due to a \$15 million increase in adjusted operating income of our Investment Management and Advisory Services segment partially offset by a \$6 million decline in adjusted operating income of our Other Asset Management segment. Income from operations before income taxes increased \$79 million, or 78%, due primarily to \$61 million of realized investment gains in the first six months of 2002 compared to \$9 million of realized investment losses in the first six months of 2001. For a discussion of realized investment gains and losses see “—Consolidated Results of Operations—Realized Investment Gains.”

Investment Management and Advisory Services

Operating Results

The following table sets forth the Investment Management and Advisory Services segment’s operating results for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Operating results:				
Revenues(1)	\$ 199	\$ 209	\$ 397	\$ 414
Expenses	166	186	325	357
Adjusted operating income	\$ 33	\$ 23	\$ 72	\$ 57

(1) Revenues exclude realized investment gains, net of losses.

Adjusted Operating Income

2002 to 2001 Three Month Comparison. Adjusted operating income increased \$10 million, or 43%, to \$33 million in the second quarter of 2002 from \$23 million in the second quarter of 2001, which included \$6 million of employee termination and facilities consolidation costs. Lower expense levels in the current quarter, resulting from decreases in asset performance-based compensation as well as cost savings associated with the actions taken in 2001, more than offset the effect of reduced revenues resulting from market value declines in our equity assets under management.

2002 to 2001 Six Month Comparison. Adjusted operating income increased \$15 million, or 26%, in the first six months of 2002 from \$57 million in the first six months of 2001 to \$72 million in the first six months of 2002. The increase in adjusted operating income reflects a decrease in expenses resulting from cost saving measures implemented in 2001 and lower compensation-related expenses, partially offset by lower fee based revenues resulting from declines in market value of the underlying assets as well as lower loan origination and servicing revenue.

Table of Contents

Revenues

The following table sets forth the Investment Management and Advisory Services segment's revenues, as shown in the table above under "—Operating Results," by source for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Revenues:				
Retail customers(1)	\$ 48	\$ 54	\$ 97	\$ 107
Institutional customers	87	104	171	201
General account	64	51	129	106
Total revenue	\$ 199	\$ 209	\$ 397	\$ 414

(1) Consists of individual mutual funds and both variable annuities and variable life insurance in our separate accounts. Fixed annuities and the fixed rate options of both variable annuities and variable life insurance are included in general account. Also includes funds invested in proprietary mutual funds through our defined contribution plan products.

2002 to 2001 Three Month Comparison. Revenues, as shown in the table above under "—Operating Results," decreased \$10 million, or 5%, in the second quarter of 2002 from \$209 million in the second quarter of 2001 to \$199 million in the second quarter of 2002. The decrease in revenues from management of institutional and retail customer assets came primarily from market value declines on publicly traded equity securities, which resulted in a lower level of average assets under management, as well as lower loan origination and servicing revenue. Revenues from management of general account assets increased \$13 million, or 25%, reflecting higher revenues generated from our proprietary investment and syndication activities.

2002 to 2001 Six Month Comparison. Revenues decreased \$17 million, or 4%, in the first six months of 2002 from \$414 million in the first six months of 2001 to \$397 million in the first six months of 2002. The decrease came from declines of \$30 million, or 15%, in revenues from management of institutional customer assets and \$10 million, or 9% from management of retail customer assets. The decrease in revenues from management of institutional and retail customer assets came primarily from market value declines on publicly traded equity securities, which resulted in a lower level of average assets under management, as well as lower loan origination and servicing revenue. Revenues from management of general account assets increased \$23 million, or 22%, reflecting higher revenues generated from our proprietary investment and syndication activities.

Expenses

2002 to 2001 Three Month Comparison. Expenses, as shown in the table above under "—Operating Results," decreased \$20 million, or 11%, in the second quarter of 2002 from \$186 million in the second quarter of 2001 to \$166 million in the second quarter of 2002. The decrease primarily reflects lower compensation expenses, driven by market value declines on publicly traded equity securities on which compensation is based. Additionally, the second quarter of 2001 included costs associated with the implementation of expense savings initiatives while the second quarter of 2002 reflects the savings associated with those initiatives. In light of the current business environment we continue to evaluate our asset management operations for consolidation or other opportunities, which, if implemented, could result in implementation costs in future periods with anticipated savings from a lower cost structure thereafter.

2002 to 2001 Six Month Comparison. Expenses decreased \$32 million, or 9%, in the first six months of 2002 from \$357 million in the first six months of 2001 to \$325 million in the first six months of 2002. The decrease primarily reflects decreases in compensation expenses, driven by market value declines on publicly traded equity securities on which compensation is based, and savings associated with cost reduction initiatives implemented in 2001.

[Table of Contents](#)

Other Asset Management

Operating Results

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Operating results:				
Revenues	\$ 100	\$ 101	\$ 193	\$ 225
Expenses	77	92	146	172
Adjusted operating income	\$ 23	\$ 9	\$ 47	\$ 53

Adjusted Operating Income

2002 to 2001 Three Month Comparison. Adjusted operating income increased \$14 million in the second quarter of 2002, from \$9 million in the second quarter of 2001 to \$23 million in the second quarter of 2002. The increase came primarily from a \$13 million increase in adjusted operating income from our equity sales and trading operations. Adjusted operating income from our equity sales and trading operations in the second quarter of 2002 was \$12 million compared to a loss of \$1 million in the second quarter of 2001, when these operations incurred \$12 million of staff reduction and related costs.

2002 to 2001 Six Month Comparison. Adjusted operating income decreased \$6 million, or 11% in the first six months of 2002, from \$53 million in the first six months of 2001 to \$47 million in the first six months of 2002. The decrease came from a \$3 million decline in adjusted operating income from our equity sales and trading operations and a \$3 million decrease from our hedge portfolios. The decrease in adjusted operating income in our equity sales and trading operations resulted from a decline in our revenues from trading activities supporting retail and institutional customers partially offset by decreased expenses reflecting \$12 million of staff reduction and related costs incurred in the year-ago period. Adjusted operating income from our hedge portfolios decreased \$3 million in the first six months of 2002, from \$13 million in the first six months of 2001 to \$10 million in the first six months of 2002.

Revenues

2002 to 2001 Three Month Comparison. Revenues, as shown in the table above under "—Operating Results," for the second quarter of 2002 were essentially unchanged from the second quarter of 2001 as increased revenue associated with our hedge portfolio was offset by lower revenues associated with our commercial mortgage securitization operation.

2002 to 2001 Six Month Comparison. Revenues decreased \$32 million, or 14%, in the first six months of 2002, from \$225 million in the first six months of 2001 to \$193 million in the first six months of 2002. The decrease came from a decline in revenues from our equity sales and trading operations, from \$184 million in the first six months of 2001 to \$157 million in the first six months of 2002, which primarily reflects reduced revenues from trading supporting retail and institutional customers. The reduced trading revenues we experienced, primarily in the first three months of 2002, reflected lower transaction volume in the equity securities markets resulting from decreased investor trading activity, as well as reduced securities trading spreads. Revenues from our hedge portfolios decreased \$4 million.

Table of Contents

Expenses

2002 to 2001 Three Month Comparison. Expenses, as shown in the table above under “—Operating Results,” decreased \$15 million, or 16%, in the second quarter of 2002, from \$92 million in the second quarter of 2001 to \$77 million in the second quarter of 2002, primarily due to staff reduction and related costs incurred in the year-ago period as well as the reduced expense level resulting from these actions.

2002 to 2001 Six Month Comparison. Expenses decreased \$26 million, or 15%, from \$172 million in the first six months of 2001 to \$146 million in the first six months of 2002 primarily due to staff reduction and related costs incurred in the year-ago period as well as the reduced expense level resulting from these actions.

Corporate and Other Operations

Corporate and Other operations include corporate-level activities that we do not allocate to our business segments. It also consists of international ventures, divested businesses and businesses that we place in wind-down status that we have not divested.

Corporate-level activities consist primarily of corporate-level income and expenses not allocated to any of our business segments, including costs for company-wide initiatives such as enhancement of our Internet capabilities and income from our qualified pension plans, as well as investment returns on our unallocated equity, which is capital that is not deployed in any of our segments. Corporate-level activities also include returns from investments that we do not allocate to any of our business segments, including a debt-financed investment portfolio, which has been substantially reduced, and transactions with other segments.

The following table and discussion present results of these activities based on our definition of adjusted operating income, which is a non-GAAP measure, as well as income from operations before income taxes, which is prepared in accordance with GAAP. See “—Consolidated Results of Operations” for a definition of adjusted operating income.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
Adjusted operating income:				
Corporate-level activities(1)	\$ 36	\$ 78	\$ 63	\$ 82
Other businesses:				
International ventures	(2)	(5)	(3)	(13)
Other	1	2	(2)	5
Total	35	75	58	74
Items excluded from adjusted operating income:				
Realized investment gains (losses), net, and related adjustments	(94)	99	(116)	215
Divested businesses	10	(60)	2	(82)
Demutualization costs and expenses	—	(117)	—	(162)
Income (loss) from operations before income taxes	\$ (49)	\$ (3)	\$ (56)	\$ 45

(1) Includes consolidating adjustments.

2002 to 2001 Three Month Comparison. Corporate and Other operations resulted in adjusted operating income of \$35 million in the second quarter of 2002 and \$75 million in the second quarter of 2001.

Corporate-level activities resulted in adjusted operating income of \$36 million in the second quarter of 2002 and \$78 million in the second quarter of 2001. The decline was largely the result of inter-company hedging

[Table of Contents](#)

activity with other segments whereby the impact of certain market fluctuations in interest rates, currency exchange rates and equity price levels is assumed by Corporate and Other operations. This activity resulted in losses of \$26 million in the second quarter of 2002 and gains of \$48 million in 2001. The majority of the change was attributable to activity pertaining to the Other Asset Management segment's mortgage securitization operations pursuant to which changes in the fair value of the mortgage loans are included on a current basis in adjusted operating income of the Other Asset Management segment with an offsetting adjustment in the adjusted operating income of Corporate and Other operations. Results for Corporate and Other operations included gains of \$42 million in the second quarter of 2001 compared to losses of \$17 million in the second quarter of 2002 relating to these activities.

The unfavorable impact of the hedging activity discussed above was offset in part by a lower level of corporate-level general and administrative expenses, which totaled \$143 million in this year's second quarter, before qualified pension income, compared with \$188 million last year. Lower expenses, reflecting in part the impact of previous expense reduction initiatives, more than offset expenses incurred in the 2002 period associated with servicing our stockholder base. Income from our own qualified pension plan amounted to \$125 million in the second quarter of 2002, compared to \$135 million in the second quarter of 2001. The \$10 million decline reflected changes in pension plan assumptions. For each of the remaining quarters of 2002, we expect income from our own qualified pension plan to be approximately the same as that of the second quarter.

Investment income, net of interest expense, in corporate-level activities increased by \$8 million in the second quarter of 2002 over last year's second quarter. The benefit resulting from the transfer of net assets from the Traditional Participating Products business at the date of our demutualization and from cash held for distribution to policyholders was largely offset by lower returns from joint venture and limited partnership investments and reduced investment income, net of interest expense, from the wind-down of a debt-financed portfolio and lower yields on corporate-level invested assets.

Corporate and other operations resulted in losses from operations before income taxes of \$49 million in the second quarter of 2002 and, \$3 million in the second quarter of 2001. The increase in the loss came primarily from realized investment losses, net of related adjustments of \$94 million in the second quarter of 2002 compared to net realized investment gains of \$99 million in the year-ago quarter, as well as the \$40 million decline in adjusted operating income. The impact of these declines was offset in part by the inclusion in last year's results of \$117 million of demutualization costs and expenses and a \$70 million reduction in losses from divested businesses, primarily the former lead-managed equity underwriting for corporate issuers and institutional fixed income businesses of Prudential Securities.

2002 to 2001 Six Month Comparison. Corporate and Other operations resulted in adjusted operating income of \$58 million in the first six months of 2002 and \$74 million in the first six months of 2001.

Corporate-level activities resulted in adjusted operating income of \$63 million in the first six months of 2002 and \$82 million in the first six months of 2001. The decline was largely the result of inter-company hedging activity with other segments. This activity resulted in losses of \$21 million in the first six months of 2002 and gains of \$1 million in 2001. The change was primarily attributable to gains of \$21 million recorded in the year-ago period from activity pertaining to the Other Asset Management segment's mortgage securitization operations, compared with losses of \$13 million recorded in the 2002 period.

The unfavorable impact of the hedging activity discussed above was offset in part by a lower level of general and administrative expenses at the corporate level, which totaled \$292 million in the 2002 period, before qualified pension income, compared with \$313 million in the year-ago period. Lower expenses, reflecting in part the impact of previous expense reduction initiatives, more than offset expenses incurred in the 2002 period associated with servicing our stockholder base. Income from our own qualified pension plan amounted to \$251 million in the first six months of 2002, compared to \$270 million in the first six months of 2001. The \$19 million decline reflects changes in pension plan assumptions.

Table of Contents

Investment income, net of interest expense, in corporate-level activities increased by \$16 million in the first half of 2002 over the same period of the prior year. The benefit resulting from the transfer of net assets from the Traditional Participating Products business at the date of our demutualization and from cash held for distribution to policyholders was partially offset by lower returns from joint venture and limited partnership investments and reduced investment income, net of interest expense, reflecting the wind-down of a debt-financed portfolio and lower yields on corporate-level invested assets.

Corporate and other operations resulted in a loss from operations before income taxes of \$56 million in the first six months of 2002, compared to income from operations before income taxes of \$45 million in the first six months of 2001. The decrease reflects a change in realized investment losses, net of related adjustments of \$116 million in the 2002 period compared to net realized investment gains of \$215 million in the year-ago period, as well as the \$16 million decline in adjusted operating income. The impact of these items was offset in part by the inclusion in last year's results of \$162 million of demutualization costs and expenses and an \$80 million reduction in losses from divested businesses, primarily the former lead-managed equity underwriting for corporate issuers and institutional fixed income businesses of Prudential Securities.

For a discussion of realized investment gains, net of losses, divested businesses and demutualization costs and expenses, see “—Consolidated Results of Operation—Realized Investment Gains,” “—Divested Businesses” and “—Demutualization Costs and Expenses.”

Closed Block Business

Operating Results

Beginning in 2002, management no longer considers adjusted operating income to assess operating performance of the Closed Block Business. Consequently, results of the Closed Block Business for all periods are presented only in accordance with GAAP. The following table sets forth the Closed Block Business's GAAP results for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(in millions)			
GAAP results:				
Revenues	\$ 1,826	\$ 2,086	\$ 3,603	\$ 4,170
Benefits and expenses	2,080	2,189	4,032	4,199
Loss from operations before income taxes	\$ (254)	\$ (103)	\$ (429)	\$ (29)

Income from Operations Before Income Taxes

2002 to 2001 Three Month Comparison. Loss from operations before income taxes increased \$151 million, to \$254 million for the second quarter of 2002. Loss from operations before income taxes reflects a decline in revenues of \$260 million, from \$2.086 billion in the second quarter of 2001 to \$1.826 billion in the second quarter of 2002, primarily from a \$116 million decrease in net investment income and a \$63 million increase in realized investment losses, net of gains. For a discussion of Closed Block Business realized investment losses, net, see “—Consolidated Results of Operations—Realized Investment Gains.” The decline in income also reflects an increase in debt service costs associated with the IHC debt, which we issued in December 2001. Partially offsetting these unfavorable variances was a decrease in total benefits and expenses, as we continue to realize the benefit of staff reductions and office consolidations implemented in 2001.

2002 to 2001 Six Month Comparison. Loss from operations before income taxes increased \$400 million, to \$429 million for the first six months of 2002. Loss from operations before income taxes reflects a decline in

[Table of Contents](#)

revenues of \$567 million, from \$4.170 billion in the first six months of 2001 to \$3.603 billion in the first six months of 2002, primarily from a \$231 million increase in realized investment losses, net of gains and a decrease in net investment income of \$203 million. For a discussion of Closed Block Business realized investment losses, net, see “—Consolidated Results of Operations—Realized Investment Gains.” The decline in income also reflects an increase in debt service costs associated with the IHC debt, which we issued in December 2001. Partially offsetting these unfavorable variances was a decrease in total benefits and expenses, resulting from staff reductions and office consolidations implemented in 2001.

Revenues

2002 to 2001 Three Month Comparison. Revenues, as shown in the table above under “—Operating Results,” decreased \$260 million, or 12%, from the second quarter of 2001 to the second quarter of 2002. Net investment income declined \$116 million, from \$1.018 billion for the second quarter of 2001 to \$902 million for the second quarter of 2002. The decline reflects our transfer of \$5.6 billion of net assets previously associated with the Traditional Participating Products segment to the Financial Services Businesses at the date of demutualization as well as a lower investment yield on the assets remaining in the Closed Block Business. Additionally, realized investment losses, net of gains, amounted to \$177 million in the second quarter of 2002 compared to \$114 million in the year-ago quarter, an increase of \$63 million. Premiums decreased \$72 million, or 6%, from \$1.156 billion in the second quarter of 2001 to \$1.084 billion in the second quarter of 2002, reflecting the gradual and expected runoff of this business. We expect the decline in premiums for this business to continue as the policies in force mature or terminate over time. We have discontinued sales of traditional participating products in connection with our demutualization.

2002 to 2001 Six Month Comparison. Revenues decreased \$567 million, or 14%, from the first six months of 2001 to the first six months of 2002. Realized investment losses, net of gains, amounted to \$256 million in the first six months of 2002, compared to \$25 million in the first six months of 2001, an increase of \$231 million. Additionally, net investment income declined \$203 million, from \$1.996 billion for the first six months of 2001 to \$1.793 billion for the first six months of 2002. The decline reflects our transfer of \$5.6 billion of net assets previously associated with the Traditional Participating Products segment to the Financial Services Businesses at the date of demutualization as well as a lower investment yield on the assets remaining in the Closed Block Business. Premiums decreased \$119 million, or 6%, from \$2.147 billion in the first six months of 2001 to \$2.028 billion in the first six months of 2002, reflecting the gradual and expected runoff of this business. We expect the decline in premiums for this business to continue as the policies in force mature or terminate over time. We have discontinued sales of traditional participating products in connection with our demutualization.

Benefits and Expenses

2002 to 2001 Three Month Comparison. Benefits and expenses, as shown in the table above under “—Operating Results,” decreased \$109 million, or 5%, from the second quarter of 2001 to the second quarter of 2002. Operating expenses, including distribution costs that we charge to expense, decreased \$32 million, or 17%, from the second quarter of 2001 to the second quarter of 2002 as a result of our continued efforts to reduce operating cost levels.

Policyholder benefits and related changes in reserves, including interest credited to policyholders’ accounts, decreased \$57 million, from \$1.250 billion in the second quarter of 2001 to \$1.193 billion in the second quarter of 2002, reflecting an expected reduction in the amount of reserves established for new and renewal business, consistent with our discontinuation of sales of traditional products discussed above.

Dividends to policyholders amounted to \$648 million in the second quarter of 2002, a decrease of \$33 million, or 5%, from \$681 million in the second quarter of 2001. The decrease reflects a dividend scale change for 2002 based on evaluation of the experience underlying the dividend scale.

2002 to 2001 Six Month Comparison. Benefits and expenses decreased \$167 million, or 4%, from the first six months of 2001 to the first six months of 2002. Operating expenses, including distribution costs that we

[Table of Contents](#)

charge to expense, decreased \$41 million, or 12%, from the first six months of 2001 to the first six months of 2002 as a result of our continued efforts to reduce operating cost levels.

Policyholder benefits and related changes in reserves, including interest credited to policyholders' accounts, decreased \$75 million, from \$2,332 million in the first six months of 2001 to \$2,257 million in the first six months of 2002, reflecting an expected reduction in the amount of reserves established for new and renewal business, consistent with our discontinuation of sales of traditional products discussed above.

Dividends to policyholders amounted to \$1,291 million in the first six months of 2002, a decrease of \$81 million, or 6%, from \$1,372 million in the first six months of 2001. The decrease reflects a dividend scale change for 2002 based on evaluation of the experience underlying the dividend scale.

Sales Results

New statutory premiums from sales of traditional participating individual life insurance products amounted to \$3 million and \$10 million for the three and six months ended June 30, 2002, respectively, representing first year premiums on business sold prior to demutualization. New statutory premiums from sales of traditional participating individual life insurance products amounted to \$6 million and \$15 million for the three and six months ended June 30, 2001, respectively. We ceased sales of traditional participating products in connection with our demutualization.

Policy Surrender Experience

The following table sets forth policy surrender experience for the Closed Block Business, measured by cash value of surrenders, for the periods indicated. These amounts do not correspond to the income statement impact of surrenders under 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2002	2001	2002	2001
	(\$ in millions)			
Cash value of surrenders	\$ 314	\$ 326	\$616	\$642
Cash value of surrenders as a percentage of mean future policy benefit reserves	2.7 %	2.9%	2.6%	2.8%

2002 to 2001 Three Month Comparison. The total cash value of surrenders decreased \$12 million, or 4%, in the second quarter of 2002 from the second quarter of 2001, primarily as a result of our efforts during 2001 to locate policyholders in connection with our demutualization. The level of surrenders as a percentage of mean future policy benefit reserves was relatively unchanged in the current quarter from the year-ago quarter.

2002 to 2001 Six Month Comparison. The total cash value of surrenders decreased \$26 million, or 4%, in the first six months of 2002 from the first six months of 2001, primarily as a result of our efforts during 2001 to locate policyholders in connection with our demutualization. The level of surrenders as a percentage of mean future policy benefit reserves was relatively unchanged in the current quarter from the year-ago quarter.

Liquidity and Capital Resources

Prudential Financial

Prudential Financial's principal sources of funds to meet its obligations, including the payment of shareholder dividends, debt service, capital contributions to subsidiaries and operating expenses, are cash and short-term investments, and dividends and interest income from its direct and indirect subsidiaries. These sources of funds are complemented by Prudential Financial's borrowing capacity. As of June 30, 2002, Prudential Financial had cash and short-term investments of approximately \$2.4 billion, a decrease of \$2.1 billion, or 47%, from December 31, 2001. The decrease of \$2.1 billion was due in part to the payment of approximately \$2.0 billion for demutualization consideration to eligible policyholders in our 2001 demutualization and capital contributions of approximately \$1.2 billion to various operating businesses. These outflows were partially offset by dividends and returns of capital of \$645 million from several operating businesses. We estimate that demutualization consideration to eligible policyholders of approximately \$300 million will be paid during the remainder of 2002. Prudential Financial remains obligated to disburse further payments of approximately \$800 million, representing demutualization consideration for eligible policyholders we were unable to locate. To the extent we are unable to locate these policyholders within a prescribed period of time specified by state escheat laws, typically three to seven years, the funds must be remitted to governmental authorities. Liabilities relating to demutualization consideration payments were established on the date of demutualization.

On January 22, 2002, Prudential Financial's Board of Directors authorized a stock repurchase program, with no termination date, under which the Company is authorized to purchase up to \$1 billion of its outstanding Common Stock. The timing and amount of any repurchases under the authorization will be determined by management based on market conditions and other considerations, and such repurchases may be effected in the open market or through negotiated transactions. As of June 30, 2002, 3.2 million shares of Common Stock were repurchased at a total cost of \$106 million, including 1.6 million shares that were immediately reissued directly to a certain Company deferred compensation plan. In July 2002, 2.6 million additional shares of Common Stock were purchased at a cost of \$82 million for total purchases of 5.8 million shares of Common Stock at a total cost of \$188 million through July 31, 2002. Following these transactions, there is \$868 million remaining under the \$1 billion share repurchase authorization as of July 31, 2002.

Our insurance, broker-dealer and various other companies are subject to regulatory limitations on the payment of dividends and on other transfers of funds to affiliates. With respect to Prudential Insurance, New Jersey insurance law provides that, except in the case of extraordinary dividends or distributions, all dividends or distributions paid by Prudential Insurance may be declared or paid only from unassigned surplus, as determined pursuant to statutory accounting principles, less unrealized investment gains and revaluation of assets. Upon demutualization, unassigned surplus was reduced to zero, thereby limiting Prudential Insurance's ability to pay a dividend immediately following demutualization. As of June 30, 2002 and December 31, 2001, Prudential Insurance's unassigned surplus (deficit) was (\$376) million and \$228 million, respectively, and there were no applicable adjustments for unrealized investment gains or revaluation of assets for purposes of the foregoing law regarding dividends and distributions. Prudential Insurance also must notify the New Jersey insurance regulator of its intent to pay a dividend, if the dividend, together with other dividends or distributions made within the preceding twelve months, would exceed a specified statutory limit and obtain a non-disapproval from the New Jersey insurance regulator. The current statutory limitation applicable to New Jersey life insurers generally is the greater of 10% of the prior calendar year's statutory surplus or the prior calendar year's statutory net gain from operations (excluding realized capital gains). In addition to these regulatory limitations, the terms of the IHC debt also contain restrictions potentially limiting dividends by Prudential Insurance applicable to the Financial Services Businesses in the event the Closed Block Business is in financial distress and other circumstances. In May 2002, Prudential Insurance notified the New Jersey insurance regulator of its intent to pay an extraordinary dividend and, upon non-disapproval from the regulator, paid an extraordinary dividend of \$228 million, of which \$175 million was attributable to the Financial Services Business. In addition to the Prudential Insurance dividend, two of our property and casualty subsidiaries, Prudential Property and Casualty Insurance Company of New Jersey and Prudential Property and Casualty Insurance Company, paid extraordinary dividends of \$100 million and \$60 million, respectively, in June 2002. These subsidiaries are subject to regulations similar to those of Prudential Insurance with respect to their ability to pay dividends.

[Table of Contents](#)

Other states and foreign jurisdictions have similar regulations to those of New Jersey which affect the ability of our other insurance companies to pay dividends. The laws regulating dividends of the other states and foreign jurisdictions where our other insurance companies are domiciled are similar, but not identical, to New Jersey's. In addition, the net capital rules to which our broker-dealer subsidiaries are subject may limit their ability to pay dividends to Prudential Financial.

Financing Activities

Prudential Insurance and Prudential Funding, LLC ("Prudential Funding"), a wholly owned subsidiary of Prudential Insurance, have unsecured committed lines of credit totaling \$4.1 billion, of which \$1.5 billion expires in October 2002, \$0.1 billion expires during 2003, \$1.0 billion expires in May 2004, and the remaining \$1.5 billion expires in October 2006. Borrowings under the facility expiring in October 2002 must mature no later than October 2003, and borrowings under the other facilities must mature no later than the respective expiration dates of the facilities. The facility expiring in May 2004 includes 28 financial institutions, many of which are also among the 27 financial institutions participating in the other facilities. Up to \$2.5 billion of the amount available under these facilities can be utilized by Prudential Financial. The \$2.5 billion consists of \$500 million, \$1.0 billion and \$1.0 billion made available under the facilities expiring in October 2002, May 2004 and October 2006, respectively. We use these facilities primarily as back-up liquidity lines for our commercial paper programs and there were no outstanding borrowings under these programs at either June 30, 2002, or December 31, 2001. Our ability to borrow under these facilities is conditioned on our continued satisfaction of customary conditions, including maintenance at all times by Prudential Insurance of total adjusted capital of at least \$5.5 billion based on statutory accounting principles prescribed under New Jersey law. Prudential Insurance's total adjusted capital as of June 30, 2002 and December 31, 2001 was \$9.6 billion and \$10.0 billion, respectively. The ability of Prudential Financial to borrow under these facilities is conditioned on its maintenance of consolidated net worth of at least \$12.5 billion, based on GAAP. Prudential Financial's consolidated net worth totaled \$21.1 billion and \$20.5 billion as of June 30, 2002 and December 31, 2001, respectively. In addition, we have an uncommitted credit facility utilizing a third-party-sponsored, asset-backed commercial paper conduit, under which we can borrow up to \$1.0 billion. Our actual ability to borrow under this facility depends on market conditions. This facility, which we intend to renew or replace with a similar facility, expires in June 2003. We also use uncommitted lines of credit from banks and other financial institutions.

The following table sets forth our outstanding financing as of the dates indicated:

	June 30, 2002	December 31, 2002
	(in millions)	
Borrowings:		
General obligation short-term debt	\$ 4,220	\$ 5,334
General obligation long-term debt:		
Senior debt	1,853	2,042
Surplus notes	690	989
Total general obligation long-term debt	2,543	3,031
Total general obligations	6,763	8,365
Total limited and non-recourse borrowing(1)	2,211	2,344
Total borrowings	8,974	10,709
Total asset-based financing	31,997	24,683
Total borrowings and asset-based financings	\$ 40,971	\$ 35,392

(1) As of June 30, 2002 and December 31, 2001, \$1.75 billion of limited and non-recourse debt is within the Closed Block Business.

Total borrowings and asset-based financing as of June 30, 2002 increased approximately \$5.6 billion, or 16%, from December 31, 2001, reflecting a \$551 million decrease in long-term debt financing, a \$1.2 billion

Table of Contents

decrease in short-term debt financing, and a \$7.3 billion increase in asset-based financing. The decrease in short-term debt was driven by the recapitalization of Prudential Securities Group, the results of which contributed to a \$780 million decrease in short-term debt. In addition, our business operations utilized over \$300 million in cash to reduce commercial paper outstanding. Long-term debt decreased due to \$500 million in long-term debt reclassified to current, including \$300 million in surplus notes. The increase in asset-based financing relates primarily to our taking advantage of market opportunities in our short-term spread and hedge portfolios.

Our total borrowings consist of amounts used for general corporate purposes, investment related debt, securities business related debt and debt related to specified other businesses. Borrowings used for general corporate purposes include those used for cash flow timing mismatches at Prudential Financial and investments in equity and debt securities of subsidiaries including amounts needed for regulatory capital purposes. Investment related borrowings consist of debt issued to finance specific investment assets or portfolios of investment assets, including institutional spread lending investment portfolios, real estate, and real estate related investments held in consolidated joint ventures, as well as institutional and insurance company portfolio cash flow timing differences. Securities business related debt consists of debt issued to finance primarily the liquidity of our broker-dealers and our capital markets and other securities business related operations. Debt related to specified other businesses consists of borrowings associated with consumer banking activities, real estate franchises and relocation services. Borrowings under which either the holder is entitled to collect only against the assets pledged to the debt as collateral, or has only very limited rights to collect against other assets, have been classified as limited and non-recourse debt.

Our borrowings as of June 30, 2002 and December 31, 2001, categorized by use of proceeds, are summarized below:

	June 30, 2002	December 31, 2001
	(in millions)	
General obligations:		
General corporate purposes	\$ 1,595	\$ 2,667
Investment related	1,352	1,420
Securities business related	2,853	3,123
Specified other businesses	963	1,155
Total general obligations	6,763	8,365
Limited and non-recourse debt	2,211	2,344
Total borrowings	\$ 8,974	\$ 10,709
Long-term debt	\$ 4,753	\$ 5,304
Short-term debt	4,221	5,405
Total borrowings	\$ 8,974	\$ 10,709
Borrowings of Financial Services Businesses	\$ 7,224	\$ 8,959
Borrowings of Closed Block Business	1,750	1,750
Total borrowings	\$ 8,974	\$ 10,709

Our short-term debt includes bank borrowings and commercial paper outstanding under Prudential Funding's domestic commercial paper program. Prudential Funding's commercial paper borrowings as of June 30, 2002 and December 31, 2001 were \$2.1 billion and \$3.0 billion, respectively. In the second quarter of 2002, Prudential Financial issued a subordinated guarantee covering Prudential Funding's domestic commercial paper program. The weighted average interest rates on the commercial paper borrowings under these programs were 1.79% for the first six months of 2002 and 5.11% for the first six months of 2001. The total principal amount of debt outstanding under Prudential Funding's medium-term note programs was \$1.6 billion as of June 30, 2002 and \$2.0 billion as of December 31, 2001. The weighted average interest rates on Prudential Funding's long-term debt, in the aggregate, were 2.44% for the first six months of 2002 and 5.60% for the first six months of 2001.

[Table of Contents](#)

We had outstanding surplus notes totaling \$990 million and \$989 million as of June 30, 2002 and December 31, 2001, respectively. These debt securities, which are included as surplus of Prudential Insurance on a statutory accounting basis, are subordinate to other borrowings and to policyholder obligations and are subject to regulatory approvals for principal and interest payments.

Insurance, Annuities and Guaranteed Products Liquidity

Our principal cash flow sources from insurance, annuities and guaranteed products are premiums and annuity considerations, investment and fee income, and investment maturities and sales. We supplement these cash inflows with financing activities. We actively use our balance sheet capacity for financing activities on a secured basis through securities lending, repurchase and dollar roll transactions and on an unsecured basis for temporary cash flow mismatch coverage. Historically, we have also used our balance sheet capacity to earn additional spread income, primarily through our debt-financed investment portfolio included in Corporate and Other operations, although this portfolio was substantially reduced in 2001.

Cash outflow requirements principally relate to benefits, claims, dividends paid to policyholders, and payments to contract holders as well as amounts paid to policyholders and contract holders in connection with surrenders, withdrawals and net policy loan activity. Uses of cash also include commissions, general and administrative expenses, purchases of investments, and debt service and repayments in connection with financing activities. Some of our products, such as guaranteed products offered to institutional customers of the Employee Benefits division, provide for payment of accumulated funds to the contract holder at a specified maturity date unless the contract holder elects to roll over the funds into another contract with us. We regularly monitor our liquidity requirements associated with policyholder and contractholder obligations so that we can manage cash inflows to match anticipated cash outflow requirements.

Gross account withdrawals amounted to \$3.872 billion and \$4.305 billion in the first six months of 2002 and 2001, respectively. These withdrawals include contractually scheduled maturities of traditional guaranteed investment contracts totaling \$295 million in the first six months of 2002. We experienced these withdrawals on guaranteed products as a result of contractual expirations of products sold in the late 1980s and early 1990s. Since these contractual withdrawals, as well as the level of surrenders experienced, were consistent with our assumptions in asset liability management, the associated cash outflows did not have an adverse impact on our overall liquidity.

We use surrender charges and other contract provisions to mitigate the extent, timing and profitability impact of withdrawals of funds by customers from annuity contracts. The following table sets forth withdrawal characteristics of our annuity reserves and deposit liabilities (based on statutory liability values) as of the dates indicated.

	June 30, 2002		December 31, 2001	
	Amount	% of Total	Amount	% of Total
	(\$ in millions)			
Not subject to discretionary withdrawal provisions	\$ 36,587	39%	\$ 36,935	38%
Subject to discretionary withdrawal, with adjustment:				
With market value adjustment	24,121	25%	19,727	21%
At market value	24,441	26%	24,906	26%
At contract value, less surrender charge of 5% or more	1,597	2%	7,166	7%
Subtotal	86,746	92%	88,734	92%
Subject to discretionary withdrawal at contract value with no surrender charge or surrender charge of less than 5%	7,759	8%	7,224	8%
Total annuity reserves and deposit liabilities	\$ 94,505	100%	\$ 95,958	100%

Table of Contents

As of June 30, 2002 and December 31, 2001, general account balances for variable life insurance products other than single-payment life were \$1.9 billion and \$1.9 billion, respectively, while separate account balances were \$12.1 billion and \$13.0 billion, respectively. The table above includes \$5.711 billion and \$5.881 billion as of June 30, 2002 and December 31, 2001, respectively, of annuity reserves and deposit liabilities of Gibraltar Life, which we acquired in April 2001. Gibraltar Life's assets and liabilities were substantially restructured under a reorganization concurrent with our acquisition, which included the imposition of special surrender penalties on existing policies according to the following schedule (for each year ending June 30):

2002	2003	2004	2005	2006	2007	2008	2009
15%	14%	12%	10%	8%	6%	4%	2%

We believe that cash flows from operating and investing activities of our insurance, annuity and guaranteed products operations are adequate to satisfy liquidity requirements of these operations based on our current liability structure and considering a variety of reasonably foreseeable stress scenarios. The continued adequacy of this liquidity will depend upon factors including future securities market conditions, changes in interest rate levels and policyholder perceptions of our financial strength, which could lead to reduced cash inflows or increased cash outflows. As of June 30, 2002 and December 31, 2001, on a consolidated basis, we had short-term investments of approximately \$5.2 billion and \$4.9 billion, respectively, and fixed maturity investments classified as "available for sale" with fair values of \$116.8 billion and \$109.9 billion at those dates, respectively.

Securities Operations Liquidity

Prudential Securities Group Inc. maintains a highly liquid balance sheet with substantially all of its assets consisting of securities purchased under agreements to resell, short-term collateralized receivables from clients and broker-dealers arising from securities transactions, marketable securities, securities borrowed and cash equivalents. Prudential Securities Group's assets totaled \$21.8 billion and \$22.6 billion as of June 30, 2002 and December 31, 2001, respectively. Prudential Securities Group's total capitalization, including equity, subordinated debt and long-term debt, was \$3.9 billion and \$3.3 billion as of June 30, 2002 and December 31, 2001, respectively. In October 2000, we announced that we would terminate our institutional fixed income activities that constituted the major portion of the debt capital markets operations of Prudential Securities Group. Our continuing wind-down of positions related to these activities resulted in a reduced level of asset-based financing at Prudential Securities Group during the first six months of 2002. As of June 30, 2002, Prudential Securities Group had remaining assets amounting to approximately \$1.1 billion related to its institutional fixed income activities, as compared to \$1.2 billion as of December 31, 2001. Substantially all of these assets were financed by means of asset-based borrowings.

Non-Insurance Contractual Obligations

The following table presents our contractual cash flow commitments on short-term and long-term debt and equity security units as of June 30, 2002. This table does not reflect our obligations under our insurance, annuity and guaranteed products contracts.

	Payment Due by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
			(in millions)		
Short-term and long-term debt	\$ 8,974	\$ 4,221	\$ 655	\$ 927	\$ 3,171
Equity security units	690	—	—	690	—
Total	\$ 9,664	\$ 4,221	\$ 655	\$ 1,617	\$ 3,171

Table of Contents

In addition to the amounts above, we are party to operating leases for which our future minimum lease payments under non-cancelable operating leases were \$1.9 billion as of December 31, 2001. Our use of operating leases has not changed significantly from December 31, 2001.

During the normal course of our business, we utilize financial instruments with off-balance sheet credit risk such as commitments, financial guarantees and letters of credit. Commitments include commitments to originate and sell mortgage loans, the unfunded portion of commitments to fund investments in private placement securities and commitments for unused credit card and home equity lines.

In connection with our consumer banking business, loan commitments for credit cards, home equity lines of credit and other lines of credit include agreements to lend up to specified limits to customers. It is anticipated that commitment amounts will only be partially drawn down based on overall customer usage patterns and, therefore, do not necessarily represent future cash requirements. We evaluate each credit decision on such commitments at least annually and have the ability to cancel or suspend such lines at our option. The total lines of credit for credit card, home equity and other commitments were \$1.718 billion, of which \$710 million remains available as of June 30, 2002.

Other commitments primarily include commitments to originate and sell mortgage loans and the unfunded portion of commitments to fund investments in private placement securities. These mortgage loans and private placement commitments were \$1.663 billion, of which \$1.181 billion remains available as of June 30, 2002.

We also provide financial guarantees incidental to other transactions and letters of credit that guarantee the performance of customers to third parties. These credit-related financial instruments have off-balance sheet credit risk because only their origination fees, if any, and accruals for probable losses, if any, are recognized until the obligation under the instrument is fulfilled or expires. These instruments can extend for several years and expirations are not concentrated in any period. We seek to control credit risk associated with these instruments by limiting credit, maintaining collateral where customary and appropriate and performing other monitoring procedures. As of June 30, 2002, financial guarantees and letters of credit issued were \$171 million.

The following table presents the expirations of our financial instruments with off-balance sheet credit risk as of June 30, 2002.

	Expirations by Period				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
			(in millions)		
Lines of credit for credit card, home equity and other commitments	\$ 710	\$ 11	\$ 149	\$ 12	\$ 538
Commitments to originate and sell mortgage loans and the unfunded portion of commitments to fund investments in private placement securities	1,181	161	235	148	637
Financial guarantees and letters of credit	171	149	7	—	15
Total	\$2,062	\$ 321	\$ 391	\$ 160	\$ 1,190

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Risk Management, Market Risk and Derivative Instruments

Market risk is the risk of change in the value of financial instruments as a result of absolute or relative changes in interest rates, foreign currency exchange rates or equity or commodity prices. To varying degrees, the investment and trading activities supporting all of our products and services generate market risks. There have been no material changes in our market risk exposures from December 31, 2001, a description of which may be found in our December 31, 2001, Annual Report on Form 10-K, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk," filed with the SEC.

PART II OTHER INFORMATION

Item 1. *Legal Proceedings*

We are subject to legal and regulatory actions in the ordinary course of our businesses, including class action lawsuits. Our pending legal and regulatory actions include proceedings specific to us and proceedings generally applicable to business practices in the industries in which we operate. We are also subject to litigation arising out of our general business activities, such as our investments, contracts, leases and labor and employment relationships, including claims of discrimination and harassment. In some of our pending legal and regulatory actions, parties are seeking large and/or indeterminate amounts, including punitive or exemplary damages.

A joint venture in which an affiliate of Prudential Securities Group Inc. is a participant brought an arbitration claim against Kyocera Corporation alleging, among other things, claims of breach of contract relating to the manufacture and distribution of computer disk drives. The arbitration panel decided in favor of the claimants. The Company's share of damages, with interest, would exceed \$300 million. A federal district court in the Northern District of California has confirmed the award and entered judgment in favor of the claimants. On July 29, 2002, the United States Court of Appeals for the Ninth Circuit affirmed the judgment in favor of the claimants. As with any litigation, the outcome remains uncertain until all appeals have been concluded or the time to appeal has expired and, accordingly, the Company has not included the award in its results of operations.

Our litigation is subject to many uncertainties, and given its complexity and scope, the outcomes cannot be predicted. It is possible that our results of operations or cash flow in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation and regulatory matters depending, in part, upon the results of operations or cash flow for such period. Management believes, however, that the ultimate outcome of all pending litigation and regulatory matters, after consideration of applicable reserves, should not have a material adverse effect on our financial position. See our Annual Report on Form 10-K for the year ended December 31, 2001, for a discussion of our litigation.

Item 4. *Submission of Matters to a Vote of Security Holders*

At the Prudential Financial annual meeting of shareholders on June 11, 2002, the shareholders elected five Class I directors, each to serve for three-year terms expiring at the 2005 Annual Meeting of Shareholders, or until their successors are elected and qualified. The voting results were as follows:

Name of Director	Votes For	Votes Against
James G. Cullen	270,680,493	11,977,371
Glen H. Hiner	270,040,677	12,617,187
Richard M. Thomson	270,455,354	12,202,510
James A. Unruh	269,023,435	13,634,429
Stanley C. Van Ness	268,842,264	13,815,600

In addition, the shareholders ratified the appointment of PricewaterhouseCoopers LLP as the Company's independent auditors for 2002. The voting results were as follows:

Votes For	Votes Against	Abstentions
276,160,010	4,802,314	1,695,540

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

- 10.1 2002 Prudential Long-Term Performance Unit Plan;
- 10.2 Prudential Financial, Inc. Stock Option Plan;
- 10.3 The Prudential Supplemental Retirement Plan;
- 10.4 The Prudential Supplemental Employee Savings Plan;
- 10.5 The Prudential Severance Plan for Senior Executives;
- 10.6 The Prudential Insurance Supplemental Executive Retirement Plan; and
- 21.1 Subsidiaries of the registrant.

(b) Reports on Form 8-K

During the three months ended June 30, 2002, the following Current Reports on Form 8-K were filed or furnished by the Company:

- 1. Current Report on Form 8-K, May 7, 2002, attaching (i) press release announcing first quarter 2002 results and (ii) the Quarterly Financial Supplement for its Financial Services Businesses for the quarterly period ended March 31, 2002.

SIGNATURES

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

PRUDENTIAL FINANCIAL, INC.

By: /s/ RICHARD J. CARBONE

Richard J. Carbone
Senior Vice President and Chief Financial Officer
(Authorized signatory and principal financial officer)

Date: August 14, 2002

2002
Prudential Long-Term
Performance Unit Plan

Table of Contents

..	I.	Program Concept
..	II.	Eligibility
..	III.	Granting of Performance Units
..	IV.	Performance Measurement
..	V.	Final Valuation and Payment
..	VI.	Termination of Employment
..	VII.	Plan Funding
..	VIII.	Plan Administration
..	IX.	Revocation, Amendment, and Termination
..	X.	Limitation on Liability
..	XI.	No Contract of Employment
..	XII.	No Right to Participate
..	XIII.	No Limitations on Corporate Actions
..	XIV.	Facilitation of Payments
..	XV.	Addresses; Missing Recipients
..	XVI.	Taxes
..	XVII.	Successors
..	XVIII.	Captions
..	XIX.	Third Parties
..	XX.	Non-Alienation Provision

I. Program Concept

The 2002 Prudential Financial Long-Term Performance Unit Plan ("the Plan") has been developed to recognize and reward the contributions that Participants (as hereafter defined) will make towards the Prudential Financial, Inc.'s ("Prudential", "PFI", or "the Company") long-term growth and success.

The Long-Term Performance Unit Plan is one of the four elements of Total Compensation applicable to designated Executives in Prudential. The other elements are: Base Salary, Annual Incentive Award, and Benefits/Perquisites. The Long-Term Incentive Award is designed to focus attention on the importance of sustained company performance over a period of years as well as to assist in the retention of eligible employees.

The Plan is a "bonus program," as described in U.S. Department of Labor Regulations Section 2510.3-2(c). As such, the Plan is not an "employee pension benefit plan," and is thereby exempt from the substantive requirements of Title I of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

II. Eligibility

Employees at the Vice President Grade 6P or equivalent level and above are eligible to participate in this Plan ("Participants"). In addition, the Compensation Committee of the Company retains the discretion to add certain individuals below the rank of Vice President Grade 6P as Participants under the Plan, provided the Committee determines (i) that such individuals are included in a select group of management or highly compensated employees of the Company and (ii) that making such individuals Participants under the Plan is in the best interests of the Company.

III. Granting of Performance Units

Participants will be eligible for an annual grant of Performance Units. The decision to grant Performance Units and the number of Performance Units granted to Plan Participants will be at the discretion of the Compensation Committee. However, significant emphasis will be given to the individual's performance, market considerations, internal guidelines and the number of Performance Units available for grant in arriving at the number to be granted, if any.

The 2002 Performance Unit grants will be valued based upon Company performance from January 1, 2002 through December 31, 2004 (the "performance period"). The 2002 Performance Unit Plan's aggregate award pool will be set at half of 2001's award pool in order to transition the executive population to stock option award eligibility later in 2002. The aggregate award pool will be translated into a number of performance units having an initial grant value of \$555 per unit.

3

Performance Units may be awarded to new hires and promotions during the year as well as other special circumstances. The number of Performance Units granted to new hires and those receiving promotions during 2002 shall be at the discretion of the Compensation Committee.

IV. Performance Measurement

The value of the Performance Units is anticipated to increase to \$780 per unit over the three-year performance period based on an annual compounded risk-adjusted rate of return of 12%. To calculate award payments, the unit values will then be adjusted by 0.0 to 2.0 based on a relative performance measure.

The performance measure will be PFI's three-year Total Shareholder Return (TSR) relative to a group of peer companies over the performance period. The peer companies will be the companies listed in the following two sub-industries of the S&P 500 Financials Sector (only peer companies remaining in the group at year-end 2004 will count):

- Life & Health Insurance (40301020)
- Diversified Financial Services (40201020)

PFI's three-year TSR performance will be evaluated as follows:

- Performance achievement equal to the 15/th/percentile or below of the peer group will result in an earnout factor of zero
- Performance achievement equal to the 25/th/percentile of the peer group will result in an earnout factor of 0.5
- Performance achievement equal to the median of the peer group will result in an earnout factor of 1.0, or "target"
- Performance achievement equal to the 75/th/percentile of the peer group will result in an earnout factor of 1.5
- Performance achievement equal to the 85/th/percentile of the peer group will result in a maximum earnout factor of 2.0
- Earnout factors will be in a linear relationship with performance achievement between these points as shown in the graph below

4

TSR Percentile Rank vs. Performance Factor

[GRAPH]

- The TSR measurement will use average closing prices for the final 20 trading days of 2004 and, as a base period, the average closing prices from December 13, 2001, the PFI IPO date, through December 31, 2001. For PFI, the average closing price for the base period was \$31.03

The award values will be determined at the end of the three-year performance period as follows:

- Step 1: Multiply each performance unit by \$780 to determine target

award values

- Step 2: PFI's three-year TSR over the performance period will be compared on a relative basis to the three-year TSR of the peer group. For example, assume that PFI's TSR over the performance period ranked above median at the 60/th/ percentile of the peer group. The TSR performance factor will be 1.2
- Step 3: Multiply the target award values by the TSR performance factor to determine the performance adjusted award values. Using the above example, this value would be \$780 per unit times 1.2, or \$936 per unit

5

To ensure that other critical performance factors are also given consideration and reflected in the final Plan allocation, the Compensation Committee may, under normal circumstances, adjust the total amount allocated to the Plan by up to plus or minus 15%. Among the factors that will be taken into consideration will be net income and other financial results over the performance period, the level of under or over performance relative to the peer group, changes in market share, customer and employee satisfaction, extraordinary or unusual items, legal liabilities and strategic development factors. In the event of circumstances that the Compensation Committee deems extraordinary, the Compensation Committee reserves the right to make any additional adjustment to the total amount allocated.

V. Final Valuation and Payment

At the close of the performance period, the award values will be calculated and presented to the Compensation Committee for review and possible adjustment. When the final award value per unit is determined, Corporate Compensation will compute the individual payment for each Participant based on the number of Performance Units granted to the Participant.

The final 2002 awards are anticipated to be paid half in PFI shares and half in cash (subject to the ultimate discretion of the Compensation Committee). Stock price for determining the number of shares payable should be the price in February 2005 when the Compensation Committee declares the units earned and approves their final value.

Any 2002 Performance Unit not granted or any Performance Unit canceled under the circumstances described below, and not re-granted to other Participants, shall not be paid to any Participant and shall revert to the Company.

Payments made under this Plan will not be taken into account in determining benefits or contribution amounts under any employee benefit plan of the Company or any of its affiliates unless such plan shall specifically provide for the inclusion of such amounts in the computation of benefits or contribution amounts.

VI. Termination of Employment

If employment is terminated prior to the payment of the Performance Units, treatment of the Performance Units will be as follows.

- A. Discharge, Voluntary Termination, or Competing Business - If, prior to the payment of the Performance Units, the Participant is separated from employment for cause, as determined by the Compensation Committee, or the Participant engages in any business that is directly or indirectly competitive with or detrimental to the interests of Prudential as determined by the Compensation Committee, or if, before the end of the performance period, the Participant resigns or otherwise terminates

6

employment under circumstances not described in Section VI B-E below, the Participant's Performance Units shall be canceled and the Participant shall receive no payment under this Plan. Canceled Performance Units may be granted to other Participants.

- B. Retirement - Subject to compliance with the conditions outlined below, if during the performance period, a Participant separates from employment by reason of retirement upon or after qualifying to retire (whether at early or normal retirement) under the terms and conditions of any pension plan sponsored by the Company or an affiliate in which the Participant participates, the number of Performance Units granted will be reduced by multiplying the grant by a fraction, the numerator of which is the number of full months in the performance period during which the Participant was an active employee and the denominator of which is the number of months in the performance period (36). A partial month worked shall be counted as a full month if the Participant is an active employee for 15 days or more in that month. The resulting reduced number of Performance Units shall be considered

vested and payment made to the Participant following the final valuation of the Plan as described in Section V, provided that the Company reserves the right to cancel such Performance Units if the Participant, prior to the end of the applicable performance period, (i) performs any services, whether as an employee, officer, director, agent, independent - contractor, partner or otherwise, for a competitor of the Company or any of its affiliates without the consent of the Administrator, as defined below, or (ii) takes any other action, including, but not limited to, interfering with the relationship -- between the Company or any of its affiliates and any of its employees, clients or agents, which is intended to damage or does damage to the business or reputation of the Company.

The portion of any Performance Units reduced pursuant to the first sentence of this section (and therefore not payable to a Participant under any circumstances) shall be canceled and shall not be payable. In addition, if a Participant fails to comply with the conditions of payment, the pro-rated Performance Units shall also be canceled and shall not be payable.

- C. Death - If a Participant dies during the performance period, the Participant's estate or beneficiaries will receive a lump sum payment calculated by (a) first reducing the number of Performance Units by multiplying the such number by a fraction, the numerator of which is the number of full or partial months in the performance period during which the Participant was an active employee and the denominator of which is the number of months in the performance period (36), (b) multiplying such Performance Units by the greater of (i) the most recent estimation of the accrued value of such units as of the participant's death or (ii) the unit value for achievement of plan results and (c) making a lump sum payment of such amounts to the participant's estate as soon as practicable thereafter.
- D. Disability - If, prior to the payment of the Performance Units, a Participant's employment is terminated as a result of the Participant's inability to perform the basic requirement of his or her position due to physical or mental incapacity and after the

7

Participant's short-term disability benefits have expired under the terms of The Prudential Welfare Benefits plan, the number of Performance Units granted to the Participant will be reduced by multiplying the grant by a fraction, the numerator of which is the number of full months in the performance period during which the Participant was an active employee and the denominator of which is the number of months in the performance period (36). The period of time that the employee was on Short Term Disability shall be counted as active employment. A partial month worked shall be counted as a full month if the Participant is an active employee for 15 days or more in that month. The resulting reduced number of Performance Units shall be considered vested and payment made to the Participant following the final valuation of the Plan as described in Section V. If the Performance Units are reduced pursuant to this paragraph, the portion of the Performance Units eliminated shall be canceled and shall not be payable.

- E. Termination of Employment of Certain Participants After a Change of Control

If, prior to the payment of the Performance Units, a Participant's employment is terminated after a "Change of Control" as defined under the Prudential Executive Change of Control Severance Program, the Compensation Committee shall award a partial payment to such Participant that is not paid from Plan allocations. This payment will be based on the number of full months in the performance period that the Participant was an active employee and the most recent estimation of the accrued value as of the Participant's termination of employment.

- F. Involuntary Termination of Employment Other Than After a Change of Control

If a Participant's employment is terminated prior to the payment of the Performance Units by reason of involuntary termination of employment for reasons other than those described in Section VI A-E above, the Performance Units granted will be canceled and the Participant shall receive no payment from the Plan. The Compensation Committee may, in its discretion, award a partial payment to such Participant which is not paid from Plan allocations. This payment will be based on the number of full months in the performance period that the Participant was an active employee and the most recent estimation of the accrued value as of the Participant's termination of employment. In no event is a Participant who terminates from employment for reasons described in this paragraph to receive a payment greater than that computed with a "target" performance factor of 1.0, even if the actual TSR performance factor exceeds the "target" 1.0 factor.

VII. Plan Funding

The Plan shall at all times be unfunded and no provision shall at any time be made with respect to segregating any assets of the Company or an affiliate for payment of any benefits under the Plan. The right of a Participant to receive

payment under the Plan shall be an unsecured claim against the general assets of the Company or an affiliate, and

8

neither the Participant nor any other person shall have any rights in or against any specific assets of the Company or an affiliate. The Company and any affiliate may establish a reserve of assets to provide funds for payments under the Plan.

VIII. Plan Administration

The Compensation Committee shall be the administrator of the Plan. With respect to its authority to award or cancel payments under the Plan to Participants whose employment is terminated, its authority to grant Performance Units to eligible new or promoted employees below the Senior Vice President level, and with regard to the participation in the Plan of persons who are below the level of Senior Vice President, the Plan shall be administered by the Prudential Executive Vice President, Human Resources or, to the extent that the Prudential Executive Vice President, Human Resources deems appropriate, to the Vice President, Total Compensation. The Compensation Committee, the Prudential Executive Vice President, Human Resources or the Vice President, Total Compensation, as applicable, shall be referred to as the Administrator. The Administrator shall administer the Plan in accordance with its terms and shall have the discretion and authority necessary in the administration of the Plan, including the authority to interpret the Plan, to make factual determinations under the Plan and to determine Plan payments and allocations. The Administrator shall have the discretion and authority to adopt and revise rules and procedures relating to the Plan, to correct any defect or omission or reconcile any inconsistency in this Plan or any payment hereunder, and to make any other determinations that it believes necessary or advisable in the administration of the Plan. Determinations and decisions by the Administrator shall be final and binding on all employees, Participants and all other persons.

IX. Revocation, Amendment, and Termination

Other than as set forth below, the Compensation Committee may, in its sole discretion, at any time and from time to time amend, modify, suspend, or terminate this Plan, in whole or in part, without notice to or the consent of any Participant or employee. This Plan may be amended or terminated by resolution of the Compensation Committee and by execution of a written instrument by a duly authorized officer of the Company.

Notwithstanding the foregoing, if the Plan is terminated, modified or replaced by the Compensation Committee, the Company or any successor in a manner that materially adversely affects Participants of this Plan as a group in connection with a "Change of Control" as defined under the Prudential Executive Change of Control Program, payments of the full 2002 Performance Unit Award will be made to Participants under the Program as of such date, using the most recent estimation of the accrued value as of the date of Plan termination, modification or replacement. If the Plan is continued by the Company or any successor after a Change of Control or is replaced by the Company or any successor to the Company in a manner that does not materially adversely affect Participants of this Plan as a group, no immediate payment of the benefits described in the preceding sentence will be made unless and until such Participant's employment is

9

terminated by the Company or any affiliate in accordance with the provisions of the Plan or, if more favorable, any successor or replacement plan.

X. Limitation On Liability

The liability of the Company or any affiliate under this Plan is limited to the obligations expressly set forth in the Plan, and no term or provision of this Plan may be construed to impose any further or additional duties, obligations, or costs on the Company, an affiliate, or the Compensation Committee not expressly set forth in the Plan.

XI. No Contract of Employment

The existence of this Plan, as in effect at any time or from time to time, or any grant of Performance Units under the Plan shall not be deemed to constitute a contract of employment between Prudential, or an affiliate, and any employee or Participant, nor shall it constitute a right to remain in the employ of Prudential or an affiliate. Employment with Prudential or an affiliate is employment-at-will and either party may terminate the Participant's employment at any time, for any reason, with or without cause or notice.

XII. No Right to Participate

Except as provided in Sections II and III, no Participant or other employee shall at any time have a right to be selected for participation in the Plan,

despite having previously participated in an incentive or bonus plan of the Company or an affiliate.

XIII. No Limitations on Corporate Actions

Except as may otherwise be provided for in Sections VI E. or IX of the Plan (related to payments in the event of a Change of Control), nothing contained in this Plan shall be construed to prevent the Company, or any affiliate, from taking any corporate action which is deemed by it to be appropriate, or in its best interest, whether or not such action would have an adverse effect on this Plan, or any awards made under this Plan. No employee, beneficiary, or other person, shall have any claim against the Company, or any of its affiliates, as a result of any such action.

XIV. Facilitation of Payments

Notwithstanding anything else in this Plan to the contrary, in the event that a payment is due to an employee, or former employee (or a beneficiary thereof), under this Plan and the recipient is a minor, mentally incompetent, or otherwise incapacitated, such payment shall be made to the recipient's legal representative, or guardian. If there is no such legal representative, or guardian, Prudential, in its sole discretion, may direct that payment be made to any person Prudential, in its sole discretion, believes, by reason of a family relationship, or otherwise, will apply. Upon such payment, for the benefit of the

10

recipient, the Company and each of its affiliates shall be fully discharged of all obligations therefor.

XV. Addresses; Missing Recipients

A recipient of any payment under this Plan who is not a current employee of the Company, or an affiliate, shall have the obligation to inform the Company of his or her current address, or other location to which payments are to be sent. Neither the Company nor any affiliate shall have any liability to such recipient, or any other person, for any failure of such recipient, or person, to receive any payment if it sends such payment to the address provided by such recipient by first class mail, postage paid, or other comparable delivery method. Notwithstanding anything else in this Plan to the contrary, if a recipient of any payment cannot be located within 120 days following the date on which such payment is due after reasonable efforts by the Company or an affiliate, such payments and all future payments owing to such recipient shall be forfeited without notice to such recipient. If, within two years (or such longer period as Prudential, in its sole discretion, may determine), after the date as of which payment was forfeited (or, if later, is first due), the recipient, by written notice to the Company, requests that such payment and all future payments owing to such recipient be reinstated and provides satisfactory proof of their identity, such payments shall be promptly reinstated. To the extent the due date of any reinstated payment occurred prior to such reinstatement, such payment shall be made to the recipient (without any interest from its original due date) within 90 days after such reinstatement.

XVI. Taxes

The Company or an affiliate shall have the right to deduct from all payments under the Plan any federal, state, or local taxes required by law to be withheld with respect to such payments.

XVII. Successors

All obligations of the Company and any affiliate under the Plan shall be binding upon and inure to the benefit of any successor to the Company or such affiliate, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, demutualization or otherwise.

XVIII. Captions

The headings and captions appearing herein are inserted only as a matter of convenience. They do not define, limit, construe, or describe the scope or intent of the provisions of the Plan.

XIX. Third Parties

11

Nothing expressed or implied in this Plan is intended or may be construed to give any person other than eligible Participants any rights or remedies under this Plan.

XX. Non-Alienation Provision

Subject to the provisions of applicable law, no interest of any person or entity in any long term incentive award, or right to receive any long term incentive award or any distribution or other benefit under the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor may such interest in any long term incentive award, or right to receive any long term incentive award or any distribution or any benefit under the Plan be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including (but not limited to) claims for alimony, support, separate maintenance and claims in bankruptcy proceedings.

PRUDENTIAL FINANCIAL, INC.

STOCK OPTION PLAN

ARTICLE I
PURPOSE

The purpose of the "Prudential Financial, Inc. Stock Option Plan" (the "Plan") is to foster and promote the long-term financial success of Prudential Financial, Inc. (the "Company") and materially increase shareholder value by (a) motivating superior employee performance by means of performance-related incentives, (b) encouraging and providing for the acquisition of an ownership interest in the Company by the Company's and its Subsidiaries' (as hereinafter defined) employees and agents, and (c) enabling the Company to attract and retain the services of outstanding employees upon whose judgment, interest, and special effort the successful conduct of its operations is largely dependent.

ARTICLE II

DEFINITIONS

2.1 Definitions. Whenever used herein, the following terms shall have the respective meanings set forth below:

Alternative Awards. "Alternative Awards" shall have the meaning set forth in Section 7.2.

Approved Retirement. "Approved Retirement" means termination of a Participant's employment (i) on or after the normal retirement date or any early retirement date established under any defined benefit pension plan maintained by the Company or a Subsidiary and in which the Participant participates or (ii) with the approval of the Committee (which may be given at or after grant), on or after attaining age 50 and completing such period of service as the Committee shall determine from time to time. Notwithstanding the foregoing, with respect only to Participants who reside in the United States, the term "Approved Retirement" shall not apply to any Participant who has an Agent Emeritus contract with an insurance affiliate of the Company (including, but not limited to, The Prudential Insurance Company of America), whether or not such individual is deemed to be retirement eligible or is receiving retirement benefits under any defined benefit pension plan maintained by the Company or a Subsidiary and in which the Participant participates.

Associates Grant. "Associates Grant" shall have the meaning set forth in Section 3.3(c).

Board. "Board" means the Board of Directors of the Company.

Cause. "Cause" means the following (as determined by the Committee in its sole discretion): dishonesty, fraud or misrepresentation; inability to obtain or retain appropriate licenses; violation of any rule or regulation of any regulatory agency or self-regulatory agency; violation of any policy or rule of the Company or any Subsidiary; commission of a crime; or any act or omission detrimental to the conduct of the business of the Company or any Subsidiary.

Change of Control. A "Change of Control" shall be deemed to have occurred if:

(i) any Person (as defined below) acquires "beneficial ownership" (within the meaning of Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 25% or more of the combined Voting Power (as defined below) of the Company's securities; or

(ii) within any 24-month period, the Incumbent Directors (as defined below) shall cease to constitute at least a majority of the Board or the board of directors of any successor to the Company; provided, however, that any director elected to the Board, or nominated for election, by a majority of the Incumbent Directors then still in office shall be deemed to be an Incumbent Director for purposes of this sub clause (ii); or

(iii) upon the consummation of a Corporate Event (as defined below), and immediately following the consummation of

which the stockholders of the Company immediately prior to such Corporate Event do not hold, directly or indirectly, a majority of the Voting Power of (x) in the case of a merger or consolidation, the surviving or resulting corporation, (y) in the case of a share exchange, the acquiring corporation or (z) in the case of a division or a sale or other disposition of assets, each surviving, resulting or acquiring corporation which, immediately following the relevant Corporate Event, holds more than 25% of the consolidated assets of the Company immediately prior to such Corporate Event.

Notwithstanding the foregoing, a Change of Control shall not be deemed to have occurred merely as a result of (i) a reorganization involving the Company in connection with which the Converted Insurer (as defined below) converts from a mutual life insurance company to a stock company whose shareholder is the Company; (ii) the Company becoming a direct or indirect subsidiary of a mutual Parent whose members are primarily persons who were policyholders of the Converted Insurer immediately prior to such transaction or (iii) an underwritten

2

offering of the equity securities of the Company where no Person (including any group (within the meaning of Rule 13d-5(b) under the Exchange Act)) acquires more than 25% of the beneficial ownership interests in such securities.

Change of Control Price. "Change of Control Price" means the highest price per share of Common Stock offered in conjunction with any transaction resulting in a Change of Control (as determined in good faith by the Committee if any part of the offered price is payable other than in cash) or, in the case of a Change of Control occurring solely by reason of a change in the composition of the Board, the highest Fair Market Value of the Common Stock on any of the 30 trading days immediately preceding the date on which a Change of Control occurs.

Code. "Code" means the Internal Revenue Code of 1986, as amended, including, for these purposes, any regulations promulgated by the Internal Revenue Service with respect to the provisions of the Code.

Committee. "Committee" means the Compensation Committee of the Board or such other committee of the Board as the Board shall designate from time to time, which committee shall consist of two or more members, each of whom shall be a "Non-Employee Director" within the meaning of Rule 16b-3, as promulgated under the Exchange Act, and an "outside director" within the meaning of section 162(m) of the Code.

Common Stock. "Common Stock" means the common stock of the Company, par value \$0.01 per share.

Company. "Company" means Prudential Financial, Inc., a New Jersey corporation, and any successor thereto.

Converted Insurer. "Converted Insurer" means The Prudential Insurance Company of America, an affiliate of the Company.

Corporate Event. "Corporate Event" means a merger, consolidation, share exchange, division, sale or other disposition of all or substantially all of the assets of the Company, which has been approved by the shareholders of the Company

Disability. "Disability" means with respect to any Participant, long-term disability (but not optional long-term disability coverage) as defined under the welfare benefit plan maintained by either the Company or a Subsidiary and in which the Participant participates and from which the Participant is receiving a long-term disability benefit. In jurisdictions outside of the United States where long-term disability is covered by a mandatory or universal program sponsored by

3

the government or an industrial association, receipt of long-term disability benefit from such a program is considered to have met the disability definition of the Plan.

Domestic Partner. "Domestic Partner" means any person qualifying to be treated as a domestic partner of a Participant under the applicable policies, if any, of the Company or Subsidiary which employs the Participant.

Employee. "Employee" means any employee (including each officer) of, or insurance agent (whether or not a common law employee or a statutory employee) of, the Company or any Subsidiary.

Exchange Act. "Exchange Act" means the Securities Exchange Act of 1934, as amended.

Fair Market Value. "Fair Market Value" means, on any date, the price of the last trade, regular way, in the Common Stock on such date on the New York Stock Exchange or, if at the relevant time, the Common Stock is not listed to trade on the New York Stock Exchange, on such other recognized quotation system on which the trading prices of the Common Stock are then quoted (the "Applicable Exchange"). In the event that (i) there are no Common Stock transactions on the Applicable Exchange on any relevant date, Fair Market Value for such date shall mean the closing price on the immediately preceding date on which Common Stock transactions were so reported and (ii) the Applicable Exchange adopts a trading policy permitting trades after 5 P.M. Eastern Standard Time ("EST"), Fair Market Value shall mean the last trade, regular way, reported on or before 5 P.M. EST (or such earlier or later time as the Committee may establish from time to time). Finally, and notwithstanding the foregoing, to the extent any Option or SAR granted under the Plan is granted on or as of the effective date of any initial public offering of the Common Stock ("IPO"), the Fair Market Value for these purposes means the IPO price of such Common Stock.

Family Member. "Family Member" means, as to a Participant, any (i) child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, sister-in-law (including adoptive relationships), or Domestic Partner of such Participant, (ii) trusts for the exclusive benefit of one or more such persons and/or the Participant and (iii) other entity owned solely by one or more such persons and/or the Participant.

Incumbent Directors. "Incumbent Directors" means, with respect to any period of time specified under the Plan for purposes of determining a Change of

4

Control, the persons who were members of the Board at the beginning of such period.

Option (including ISOs and Nonstatutory Stock Options). "Option" means the right to purchase Common Stock at a stated price for a specified period of time. For purposes of the Plan, an Option may be either (i) an "Incentive Stock Option" ("ISO") within the meaning of Section 422 of the Code or (ii) an option which is not an Incentive Stock Option (a "Nonstatutory Stock Option").

Participant. "Participant" means any Employee designated by the affirmative action of the Committee (or its delegate) to participate in the Plan.

Person. "Person" means any person (within the meaning of Section 3(a)(9) of the Exchange Act), including any group (within the meaning of Rule 13d-5(b) under the Exchange Act)), but excluding any of the Company, any Subsidiary or any employee benefit plan sponsored or maintained by the Company or any Subsidiary.

SAR. "SAR" means a stock appreciation right granted under Section 6 in respect of one or more shares of Common Stock that entitles the holder thereof to receive, in cash or Common Stock, at the discretion of the Committee (which discretion may be exercised at or after grant, including after exercise of the SAR), an amount per share of Common Stock equal to the excess, if any, of the Fair Market Value on the date the SAR is exercised over the Fair Market Value on the date the SAR is granted.

Settlement Payment. "Settlement Payment" shall have the meaning set forth in Section 7.1.

Subsidiary. "Subsidiary" means any corporation or partnership in which the Company owns, directly or indirectly, more than 50% of the total combined voting power of all classes of stock of such corporation or of the capital interest or profits interest of such partnership.

Total Allocable Shares. "Total Allocable Shares" means, as defined in The Prudential Insurance Company of America Plan of Reorganization dated as of December 15, 2000, the number of "Allocable Shares" (the notional shares of Common Stock allocable among "Eligible Policyholders" under the Reorganization of The Prudential Insurance Company of America from a mutual insurance company to a stock insurance

company, divided among the following forms of consideration: (a) Common Stock actually issued to such Eligible Policyholders, as well as (b) cash and "policy credits" issued to Eligible Policyholders under the terms of the Plan of Reorganization).

5

2.2 Gender and Number. Except when otherwise indicated by the context, words in the masculine gender used in the Plan shall include the feminine gender, the singular shall include the plural, and the plural shall include the singular.

ARTICLE III POWERS OF THE COMMITTEE

3.1 Power to Grant. The Committee shall determine those Employees to whom Options or SARs shall be granted and the terms and conditions of any and all such Options or SARs. The Committee may establish different terms and conditions for different Participants and for the same Participant for each Option or SAR such Participant may receive, whether or not granted at different times.

3.2 Administration.

(a) Rules, Interpretations and Determinations. The Committee shall administer the Plan. The Committee shall have full authority to interpret and administer the Plan, to establish, amend, and rescind rules and regulations relating to the Plan, to provide for conditions deemed necessary or advisable to protect the interests of the Company, to construe the respective Option and/or SAR agreements and to make all other determinations necessary or advisable for the administration and interpretation of the Plan in order to carry out its provisions and purposes. Determinations, interpretations, or other actions made or taken by the Committee shall be final, binding, and conclusive for all purposes and upon all persons.

(b) Agents and Expenses. The Committee may appoint agents (who may be officers or employees of the Company) to assist in the administration of the Plan and may grant authority to such persons to execute agreements or other documents on its behalf. All expenses incurred in the administration of the Plan, including, without limitation, for the engagement of any counsel, consultant or agent, shall be paid by the Company.

(c) Delegation of Authority. The Committee may delegate to the Company's Chief Executive Officer the power and authority to make and/or administer awards under the Plan with respect to individuals who are below the position of Senior Vice President (or analogous title), pursuant to such conditions and limitations as the Committee may establish; provided that only the Committee or the Board may select, and grant Options and/or SARs to, Participants who are subject to Section 16 of the Exchange Act or exercise any other discretionary authority under the Plan in respect of Options or SARs granted to such Participants.

6

3.3 Certain Rules Relating to Grants.

(a) Maximum Individual Grants. During any five (5) year period, no individual Participant may be granted Options or SARs to acquire more than 5% of the total shares available under the Plan; provided that, to the extent that SARs are granted in tandem with an Option, so that only one may be exercised with the other terminating upon such exercise, the number of shares of Common Stock subject to such tandem Option and SAR award shall only be taken into account once (and not as to both awards) for purposes of this limit.

(b) Repricing or Substitution of Options. The Committee shall not have the right to reprice outstanding Options or SARs or to grant new Options or SARs under the Plan in substitution for or upon the cancellation of Options or SARs previously granted.

(c) Broad Based Grants. Notwithstanding anything else to the contrary contained herein, the Committee may authorize the grant of Nonstatutory Stock Options to a broad based group of Employees, including all Employees or all Employees other than such class or classes of Employees as the Committee shall determine ("Associates Grants"). Unless the Committee shall otherwise determine, any such Associates Grant shall be made on terms and conditions that are substantially the same for all Employees (or all Employees in a specified classification of Employees) receiving such grant.

ARTICLE IV
COMMON STOCK SUBJECT TO PLAN

4.1 Number. Subject to the provisions of Section 4.3, the number of shares of Common Stock issuable under the Plan in its entirety shall not exceed seven percent (7%) of the Company's Total Allocable Shares in the aggregate. Of that percentage, two percent (2%) of the Company's Total Allocable Shares are reserved for any Associates Grants under the Plan, with the remaining five percent (5%) available for the general grant of Options and SARs under the Plan. The number of shares of Common Stock reflecting these percentages will be set forth in Exhibit A to the Plan once such numbers are capable of calculation. The number of shares of Common Stock issuable under the Plan described above is reduced by the number of shares of Common Stock, if any, subject to outstanding options granted to, or that were subject to options that have been exercised by, (i) any individual who is (or was, at the time of the grant of such options) a member of the Board and not an Employee or (ii) an individual or entity whose rights in respect of such options derived from such a member of the Board. When a SAR is granted in tandem with an Option, so that only one may be exercised with the other terminating upon such exercise, the number of shares of Common Stock subject to the tandem Option and SAR award shall only be taken into account once (and not as to both

7

awards) for purposes of this limit (and for purposes of the provisions of Section 4.2. The shares to be delivered under the Plan may consist, in whole or in part, of treasury Common Stock or authorized but unissued Common Stock, not reserved for any other purpose.

4.2 Canceled or Terminated Options or SARs. Any shares of Common Stock subject to an Option or SAR which for any reason expires without having been exercised, is canceled or terminated or otherwise is settled without the issuance of any Common Stock (including, but not limited to, shares tendered to exercise outstanding Options or shares tendered or withheld for taxes) shall again be available for grants of Options or SARs under the Plan. Notwithstanding the foregoing, in the event that any SARs are exercised for cash or shares of Common Stock, the number of shares of Common Stock as to which such SARs have been exercised (and not just the number of shares actually issued) shall be deemed issued for purposes of determining the limit under Section 4.1 and shall not again be available for issuance pursuant to this Section 4.2.

4.3 Adjustment in Capitalization. In the event of any Common Stock dividend or Common Stock split, recapitalization (including, but not limited, to the payment of an extraordinary dividend), merger, consolidation, combination, spin-off, distribution of assets to stockholders (other than ordinary cash dividends), exchange of shares, or other similar corporate change, the aggregate number of shares of Common Stock available for Options or SARs under Section 4.1 or subject to outstanding Options or SARs and the respective exercise prices or base prices applicable to outstanding Options or SARs may be appropriately adjusted by the Committee, in its discretion, and the Committee's determination shall be conclusive.

ARTICLE V
STOCK OPTIONS

5.1 Grant of Options. Subject to the provisions of Section 4.1, Options may be granted to Participants at such time or times as shall be determined by the Committee. Options granted under the Plan may be of two types: (i) ISOs and (ii) Nonstatutory Stock Options. Except as otherwise provided herein, the Committee shall have complete discretion in determining the number of Options, if any, to be granted to a Participant, except that ISOs may only be granted to Employees who are common law employees of the Company or one of its majority owned subsidiaries (within the meaning of Section 424 of the Code). Each Option grant shall be evidenced by an Option agreement that shall specify the type of Option granted, the exercise price, the duration of the Option, the number of shares of Common Stock to which the Option pertains, and such other terms and conditions as the Committee shall determine which are not inconsistent with the provisions of the Plan.

8

5.2 Exercise Price. Nonstatutory Stock Options and ISOs granted pursuant to the Plan shall have an exercise price no less than the Fair Market Value of a share of Common Stock on the date the Option is granted.

5.3 Exercise of Options. Unless the Committee shall impose a different schedule requiring a longer or shorter period of service to exercise in full any Option granted hereunder, one-third of each Nonstatutory Stock Option or ISO granted pursuant to the Plan shall become exercisable on each of the first three anniversaries of the date such Option is granted; provided that the Committee may establish performance-based criteria for exercisability that can accelerate the exercisability of all or any portion of any Option. Subject to the provisions of this Article V, once any portion of any Option has become

exercisable it shall remain exercisable for its full term. The Committee shall determine the term of each Nonstatutory Stock Option or ISO granted, but, except as expressly provided below, in no event shall any such Option be exercisable for more than 10 years after the date on which it is granted.

5.4 Payment. The Committee shall establish procedures governing the exercise of Options. No shares shall be delivered pursuant to any exercise of an Option unless arrangements satisfactory to the Committee have been made to assure full payment of the exercise price therefor. Without limiting the generality of the foregoing, payment of the exercise price may be made: (a) in cash or its equivalent (b) by exchanging shares of Common Stock (which are not the subject of any pledge or other security interest) which have been owned by the person exercising the Option for at least six (6) months at the time of exercise; (c) through an arrangement with a broker approved by the Company whereby payment of the exercise price is accomplished with the proceeds of the sale of Common Stock; or (iv) by any combination of the foregoing; provided that the combined value of all cash and cash equivalents paid and the Fair Market Value of any such Common Stock so tendered to the Company, valued as of the date of such tender, is at least equal to such exercise price. The Company may not make a loan to a Participant to facilitate such Participant's exercise of any of his or her Options.

5.5 ISOs. Notwithstanding anything in the Plan to the contrary, no Option that is intended to be an ISO may be granted after the tenth anniversary of the effective date of the Plan and no term of this Plan relating to ISOs shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be so exercised, so as to disqualify the Plan under Section 422 of the Code, or, without the consent of any Participant affected thereby, to disqualify any ISO under such Section 422.

5.6 Termination of Employment.

(a) Due to Death. In the event a Participant's employment terminates by reason of death, any Options granted to such Participant shall become immediately exercisable in full and may be exercised by the Participant's estate or

9

as may otherwise be provided for in accordance with the requirements of Section 9.2, at any time prior to the later of (i) the first anniversary of the Participant's death or (ii) the earlier to occur of (A) the expiration of the term of the Options or (B) the third anniversary (or such earlier date as the Committee shall determine at the time of grant) of the Participant's death.

(b) Due to Disability. In the event a Participant's employment is terminated by his or her employer by reason of Disability, any Options granted to such Participant shall become immediately exercisable in full and may be exercised by the Participant (or, in the event of the Participant's death after termination of employment when the Option is exercisable pursuant to its terms, by the Participant's estate or as otherwise may be provided for in accordance with the requirements of Section 9.2), at any time prior to the expiration date of the term of the Options or within three (3) years (or such shorter period as the Committee shall determine at the time of grant) following the Participant's termination of employment, whichever period is shorter.

(c) Due to Approved Retirement. In the event a Participant's employment terminates by reason of Approved Retirement, any Options granted to such Participant which are then outstanding shall become immediately exercisable in full and may be exercised by the Participant (or, in the event of the Participant's death after termination of employment when the Option is exercisable pursuant to its terms, by the Participant's estate or as otherwise may be provided for in accordance with Section 9.2), at any time prior to the expiration date of the term of the Options or within five (5) years (or such shorter period as the Committee shall determine at the time of grant) following the Participant's Approved Retirement, whichever period is shorter.

(d) Termination of Employment For Cause or Resignation. In the event a Participant's employment is terminated by the Company or any Subsidiary for Cause or by the Participant other than due to his death, Disability, Approved Retirement or within 12 months of a Change of Control, any Options granted to such Participant that are then not yet exercised shall expire at the time of such termination and not be exercisable thereafter.

(e) Termination of Employment for Any Other Reason. Unless otherwise determined by the Committee at or following the time of grant, in the event the employment of the Participant shall terminate for any reason other than one described in Section 5.6 (a) through (d), any Options granted to such Participant which are exercisable at the date of the Participant's termination of employment may be exercised by

the Participant (or, in the event of the Participant's death after termination of employment when the Option is exercisable pursuant to its terms, by the Participant's estate or as may otherwise

10

be provided for in accordance with the requirements of Section 9.2) at any time prior to the expiration of the term of the Options or the ninetieth day following the Participant's termination of employment, whichever period is shorter, and any Options that are not exercisable at the time of termination of employment shall expire at the time of such termination and not be exercisable thereafter.

5.7 Restrictive Covenants and Other Conditions. Without limiting the generality of the foregoing, the Committee may condition the grant of any Option under the Plan upon the Employee to whom such Option would be granted agreeing in writing to certain conditions in addition to the provisions regarding exercisability of the Option (such as restrictions on the ability to transfer the underlying shares of Common Stock) or covenants in favor of the Company and/or one or more Subsidiaries (including, without limitation, covenants not to compete, not to solicit employees and customers and not to disclose confidential information, that may have effect following the termination of the Employee's employment with the Company and its Subsidiaries and after the Option has been exercised, including, without limitation, the requirement that the Employee disgorge any profit, gain or other benefit received in respect of the exercise of the Option prior to any breach of any such covenant by the Employee). Notwithstanding the foregoing, no Associates Grant shall contain any such restrictions or covenants.

ARTICLE VI STOCK APPRECIATION RIGHTS (SARs)

6.1 Grant of SARs. SARs may be granted to any Participants, all Participants or any class of Participants at such time or times as shall be determined by the Committee. SARs may be granted in tandem with an Option, or may be granted on a freestanding basis, not related to any Option. A grant of a SAR shall be evidenced in writing, whether as part of the agreement governing the terms of the Option, if any, to which such SARs relate or pursuant to a separate written agreement with respect to freestanding SARs, in each case containing such provisions not inconsistent with the Plan as the Committee shall approve.

6.2 Terms and Conditions of SARs. Notwithstanding the provisions of Section 6.1, unless the Committee shall otherwise determine the terms and conditions (including, without limitation, the exercise period of the SAR, the vesting schedule applicable thereto and the impact of any termination of service on the Participant's rights with respect to the SAR) applicable with respect to (i) SARs granted in tandem with an Option shall be substantially identical (to the extent possible taking into account the differences related to the character of the SAR) to the terms and conditions applicable to the tandem Options and (ii) freestanding SARs shall be substantially identical (to the extent possible taking into account the differences related to the character of the SAR) to the terms and conditions that would have been applicable under Section 5 were the grant of the SARs a grant of an Option.

11

6.3 Exercise of Tandem SARs. SARs which are granted in tandem with an Option may only be exercised upon the surrender of the right to exercise such Option for an equivalent number of shares and may be exercised only with respect to the shares of Stock for which the related Option is then exercisable.

6.4 Payment of SAR Amount. Upon exercise of a SAR, the holder shall be entitled to receive payment, in cash, in shares of Common Stock or in a combination thereof, as determined by the Committee, of an amount determined by multiplying:

- (a) the excess, if any, of the Fair Market Value of a share of Stock at the date of exercise over the Fair Market Value of a share of Common Stock on the date of grant, by
- (b) the number of shares of Common Stock with respect to which the SARs are then being exercised;

provided, however, that at the time of grant, the Committee may establish, in its sole discretion, a maximum amount per share which will be payable upon exercise of a SAR.

ARTICLE VII CHANGE OF CONTROL

7.1 Accelerated Vesting and Payment. Subject to the provisions of Section 7.2, in the event of a Change of Control each Option and SAR then outstanding shall be fully exercisable regardless of the exercise schedule

otherwise applicable to such Option and/or SAR and, in connection with such a Change of Control, the Committee may, in its discretion, provide that each Option and/or SAR shall, upon the occurrence of such Change of Control, be canceled in exchange for a payment per share (the "Settlement Payment") in an amount equal to the excess, if any, of the Change of Control Price over the exercise price for such Option or the base price of such SAR. Such Settlement Payment shall be in the form of cash, unless the transaction which constitutes the Change of Control is intended to qualify for treatment as a "Pooling of Interests" under APB No. 16 (or any successor thereto), in which case such Settlement Payment shall be in registered stock of the same class as is otherwise provided to the shareholders of the Company.

7.2 Alternative Awards. Notwithstanding Section 7.1, no cancellation, acceleration of exercisability, vesting, cash settlement or other payment shall occur with respect to any Option or SAR if the Committee reasonably determines in good faith prior to the occurrence of a Change of Control that such Option or SAR shall be honored or assumed, or new rights substituted therefore (such honored, assumed or substituted award hereinafter called an "Alternative Award"), by a Participant's employer (or the parent or

12

an affiliate of such employer) immediately following the Change of Control; provided that any such Alternative Award must:

(a) be based on stock which is traded on an established securities market;

(b) provide such Participant with rights and entitlements substantially equivalent to or better than the rights, terms and conditions applicable under such Option or SAR, including, but not limited to, an identical or better exercise or vesting schedule and identical or better timing and methods of payment;

(c) have substantially equivalent economic value to such Option or SAR (determined at the time of the Change in Control); and

(d) have terms and conditions which provide that in the event that the Participant's employment is involuntarily terminated for any reason (including, but not limited to a termination due to death, Disability or for Cause) or constructively terminated (as described below), all of such Participant's Options and/or SARs shall be deemed immediately and fully exercisable and shall be settled for a payment per each share of stock subject to the Alternative Award in cash, in immediately transferable, publicly traded securities or in a combination thereof, in an amount equal to the excess of the Fair Market Value of such stock on the date of the Participant's termination over the corresponding exercise or base price per share.

For this purpose, a "constructive termination" shall mean a termination of employment by a Participant following a material reduction in the Participant's base salary or a Participant's incentive compensation opportunity, in either case without the Participant's written consent.

7.3 Accounting Issues. In applying the provisions of this Article VII to a Pooling of Interests, the provisions related to business combinations under FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation - an Interpretation of APB Opinion No. 25" (including any interpretations and modifications thereof) shall be taken into account.

ARTICLE VIII AMENDMENT, MODIFICATION, AND TERMINATION OF PLAN

8.1 General. The Board may, at any time and from time to time amend, modify, suspend, or terminate this Plan, in whole or in part, without notice to or the consent of any participant or employee; provided, however, that any amendment which would (i) increase the number of shares available for issuance under the Plan or (ii) lower

13

the minimum exercise price at which an Option (or the base price at which a SAR) may be granted shall be subject to the approval of the Company's shareholders. No amendment, modification, or termination of the Plan shall in any manner adversely affect any Option or SAR theretofore granted under the Plan, without the consent of the Participant.

8.2 Non-U.S. Employees. With respect to any Subsidiary of the Company which employs Participants who reside outside of the United States, the Committee may in its sole discretion amend or vary the terms of this Plan in order to conform such terms with the requirements of local law to meet the objectives and purpose of this Plan, and the Committee may, where appropriate, establish one or more sub-plans to reflect such amended or varied provisions.

ARTICLE IX
MISCELLANEOUS PROVISIONS

9.1 Transferability of Options or SARs. No Options or SARs granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution; provided that the Committee may, in the Option agreement or otherwise, permit transfers of Nonstatutory Stock Options with or without tandem SARs and freestanding SARs to Family Members (including, without limitation, transfers effected by a domestic relations order).

9.2 Treatment of Any Outstanding Rights or Features Upon Participant's Death. Any Options, SARs, rights or features remaining unexercised or unpaid at the Participant's death shall be paid to, or exercised by, the Participant's estate except where otherwise provided by law, or when done in accordance with other methods (including a beneficiary designation process) put in place by the Committee or a duly appointed designee from time to time. Except as otherwise provided herein, nothing in this Plan is intended or may be construed to give any person other than Participants any options, rights or remedies under this Plan.

9.3 Deferral of Payment. The Committee may, in the Option agreement or otherwise, permit a Participant to elect, upon such terms and conditions as the Committee may establish, to defer receipt of shares of Common Stock that would otherwise be issued upon exercise of a Nonstatutory Stock Option with or without tandem SARs or freestanding SARs. Notwithstanding anything else contained herein to the contrary, deferrals shall not be permitted hereunder in a way which will result in the Company or any Subsidiary being required to recognize a financial accounting charge due to such deferral which is substantially greater than the charge, if any, that was associated with the underlying Options or SARs.

14

9.4 No Guarantee of Employment or Participation. The terms or existence of this Plan, as in effect at any time or from time to time, or any grant of Options or SARs under the Plan, shall not interfere with or limit in any way the right of the Company or any Subsidiary to terminate any Participant's employment at any time, nor confer upon any Participant any right to continue in the employ of the Company or any Subsidiary or any other affiliate of the Company. Except to the extent expressly selected by the Committee to be a Participant, no person (whether or not an Employee or a Participant) shall at anytime have a right to be selected for (or additional) participation in the Plan, despite having previously participated in an incentive or bonus plan of the Company or an affiliate. The existence of the Plan shall not be deemed to constitute a contract of employment between the Company or any affiliate and any Employee or Participant, nor shall it constitute a right to remain in the employ of the Company or any affiliate.

9.5 Tax Withholding. The Company, Subsidiary or an affiliate shall have the right to deduct from all payments or distributions hereunder any federal, state, or local taxes or other obligations required by law to be withheld with respect thereto. The Company may defer issuance of Common Stock upon the exercise of an Option or a SAR until such requirements are satisfied. The Committee may, in its discretion, permit a Participant to elect, subject to such conditions as the Committee shall impose, (a) to have shares of Common Stock otherwise issuable under the Plan withheld by the Company or (b) to deliver to the Company previously acquired shares of Common Stock, in either case for the greatest number of whole shares having a Fair Market Value on the date immediately preceding the date of exercise not in excess of the minimum amount required to satisfy the statutory withholding tax obligations upon the corresponding exercise of an Option or a SAR settled in Common Stock.

9.6 No Limitation on Compensation; Scope of Liabilities. Nothing in the Plan shall be construed to limit the right of the Company to establish other plans if and to the extent permitted by applicable law. The liability of the Company, Subsidiary or any affiliate under this Plan is limited to the obligations expressly set forth in the Plan, and no term or provision of this Plan may be construed to impose any further or additional duties, obligations, or costs on the Company or any affiliate thereof or the Committee not expressly set forth in the Plan.

9.7 Requirements of Law. The granting of Options or SARs and the issuance of shares of Common Stock shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

9.8 Term of Plan. The Plan shall be effective upon its adoption by the Board and approval by the New Jersey Commissioner of Banking and Insurance. The Plan shall continue in effect, unless sooner terminated pursuant to Article VIII, until no more shares are available for issuance under the Plan.

15

9.9 Governing Law. The Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of New Jersey, without regard to principles of conflict of laws.

9.10 No Impact On Benefits. Except as may otherwise be specifically stated under any employee benefit plan, policy or program, Options and SARs shall not be treated as compensation for purposes of calculating an Employee's right under any such plan, policy or program.

9.11 No Constraint on Corporate Action. Except as provided in Article VIII, nothing contained in this Plan shall be construed to prevent the Company, or any affiliate, from taking any corporate action (including, but not limited to, the Company's right or power to make adjustments, reclassifications, reorganizations or changes of its capital or business structure, or to merge or consolidate, or dissolve, liquidate, sell, or transfer all or any part of its business or assets) which is deemed by it to be appropriate, or in its best interest, whether or not such action would have an adverse effect on this Plan, or any awards made under this Plan. No employee, beneficiary, or other person, shall have any claim against the Company, any Subsidiary, or any of its affiliates, as a result of any such action.

9.12 Captions. The headings and captions appearing herein are inserted only as a matter of convenience. They do not define, limit, construe, or describe the scope or intent of the provisions of the Plan.

PRUDENTIAL SUPPLEMENTAL
RETIREMENT PLAN

(effective as of January 1, 2001,
except as otherwise provided herein)

The Prudential Supplemental Retirement Plan (the "Plan") has been established by The Prudential Insurance Company of America, effective January 1, 1996, for the purpose of providing unfunded supplemental retirement benefits for certain eligible employees (and their beneficiaries) that cannot be provided by the Retirement System (as defined below) because of limits imposed by the Code. The Plan provides Participants (and their beneficiaries) with one or more of the following categories of benefits: (a) Supplemental Benefits (i.e., excluded compensation benefits, excess benefits, and deferred compensation benefits); (b) Special Early Retirement Benefits; (c) Death Benefits; and (d) ad hoc cost of living adjustments.

The portion of the Plan that provides excess benefits (i.e., benefits that, pursuant to Code section 415, may not be provided under a tax-qualified retirement plan) is intended to be, and shall be administered as, an excess benefit plan within the meaning of section 3(36) of ERISA. The remainder of the Plan is intended to be, and shall be administered as, an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees within the meaning of Title I of ERISA.

The Plan, as restated as of January 1, 1996, was a restatement of that portion of the Prior Programs that related to benefits under the Retirement System. That portion of the Prior Programs that related to benefits under the Canadian Retirement Plan was not affected by the restatement. Amounts accrued, but not yet paid under the Prior Programs on December 31, 1995, that were related to benefits under the Retirement System shall be paid under this Plan; provided that Participants who incurred a Termination of Employment prior to January 1, 1996 shall receive benefits in accordance with the terms of the Prior Programs in effect at such Termination of Employment.

The Plan, as restated as of January 1, 2001, is a restatement that reflects certain changes to the Retirement System, including implementation of a cash balance formula with respect to new hires and rehires on and after January 1, 2001, and implementation of an elective cash balance formula with respect to Eligible Employees who were employed on December 31, 2000, had accrued benefits under the Prudential Traditional Retirement Plan, remained Employees through January 1, 2002, and elected to participate in the Prudential Cash Balance Plan. Amounts accrued, but not yet paid on December 31, 2000, that were related to benefits under the Prudential Traditional Retirement Plan shall be paid under this Plan; provided that Participants who incurred a Termination of Employment prior to January 1, 2001 shall receive benefits in accordance with the terms of the Plan in effect at such Termination of Employment.

1

Article I

DEFINITIONS

The following terms shall have the meanings hereinafter set forth. Other terms that are capitalized in the Plan shall be defined in the same manner as they are defined in the Retirement System.

1.1 "Board of Directors" means the Board of Directors of the Company.

1.2 "Canadian Retirement Plan" means The Prudential Insurance Company of America and Participating Affiliated Companies 1976 Retirement System for Canadian Employees, a defined benefit retirement plan maintained by the Company.

1.3 "Code" means the Internal Revenue Code of 1986, as amended.

1.4 "Committee" means the committee described in the claims and appeals section of the Prudential Traditional Retirement Plan.

1.5 "Company" means The Prudential Insurance Company of America.

1.6 "Controlled Group" means the Company and (a) each corporation which is a member of a controlled group of corporations (within the meaning of Code section 414(b)) which includes the Company, (b) each trade or business (whether or not incorporated) which is under common control with the Company (within the meaning of Code section 414(c)), (c) each organization included in the same affiliated service group (within the meaning of Code section 414(c)) as the Company, and (d) each other entity required to be aggregated with the

Company pursuant to regulations promulgated under Code section 414(o). Any such entity shall be treated as part of the Controlled Group only for the period while it is a member of the controlled group or considered to be in a common control group.

1.7 "Death Benefits" means benefits that are payable upon the death of a Participant in accordance with Article VI of the Plan.

1.8 "Deferred Compensation Plan" means the Prudential Consolidated Deferred Compensation Plan, the Deferred Compensation Plan effective January 1, 2000, and any subsequent plans maintained by the Company for the purpose of (a) providing deferred compensation for a select group of management or highly compensated employees within the meaning of Title I of ERISA, and (b) permitting such employees to defer a portion or all of certain specified bonuses to a specified date or occurrence.

1.9 "Employer" means the Company and each Participating Affiliated Company in the Retirement System.

1.10 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

1.11 "Participant" means an individual who is accruing benefits under Article II or Article III. An individual shall be a Participant only with respect to those benefits for which the individual satisfies applicable eligibility requirements. A Participant also includes an individual who has previously accrued benefits under the terms of (a) one or more of the Prior Programs as they relate to benefits under the Retirement System, or (b) the Plan, but in each case has not yet received all such accrued benefits.

2

1.12 "Plan" means this Prudential Supplemental Retirement Plan as amended from time to time.

1.13 "Prior Programs" means the Excess Benefit Retirement Income Program, the Supplemental Retirement Income Program, and the Spouse Income Program, as maintained by the Company and in effect from time to time prior to 1996.

1.14 "Prudential Cash Balance Plan" means the Prudential Cash Balance Pension Plan Document, a component of the Prudential Merged Retirement Plan.

1.15 "Prudential Merged Retirement Plan" means The Prudential Merged Retirement Plan, a defined benefit retirement plan maintained by the Company.

1.16 "Prudential Traditional Retirement Plan" means The Prudential Traditional Retirement Plan Document, a component of the Prudential Merged Retirement Plan.

1.17 "Retirement System" means the Prudential Cash Balance Plan and the Prudential Traditional Retirement Plan, components of the Prudential Merged Retirement Plan.

1.18 "Special Early Retirement Benefits" means benefits accrued by Participants in accordance with Article III of the Plan.

1.19 "Supplemental Benefits" means benefits accrued by Participants in accordance with Article II of the Plan.

1.20 "Termination of Employment" means the voluntary or involuntary termination of employment with the Controlled Group for any reason, including death.

3

ARTICLE II

SUPPLEMENTAL BENEFITS

2.1 Eligibility. Each participant in the Retirement System who satisfies one or more of the following requirements is a Participant eligible to accrue Supplemental Benefits under this Article:

(a) a participant in the Retirement System whose retirement benefits under the Retirement System do not accrue or are reduced by reason of Code section 401(a)(17) (as reflected in the applicable provisions of the Retirement System);

(b) a participant in the Retirement System whose retirement benefits under the Retirement System do not accrue or are reduced by reason of Code section 415; or

(c) a participant in the Retirement System who defers payment of a portion of compensation from the Employer pursuant to (1) a Deferred Compensation Plan, or (2) effective January 1, 1989, the Prudential Supplemental Employee Savings Plan (or one of its predecessor plans, the Non-Qualified Deferred Compensation Plan) that would, but for the deferral of payment, constitute pensionable Earnings under the Retirement System (including any such compensation that would have constituted Earnings but would have exceeded the limit on compensation imposed by Code section 401(a)(17)).

2.2 Amount.

(a) The amount of a Participant's Supplemental Benefits under this Article shall be an amount equal to the excess, if any, of (1) over (2) below:

(1) such Participant's hypothetical retirement benefits that would be payable under the Retirement System determined: (i) without regard to the limit on compensation imposed by Code section 401(a)(17) (as reflected in the applicable provisions of the Retirement System); (ii) without regard to the limits on benefits imposed by Code section 415(b) (as reflected in the applicable provisions of the Retirement System); and (iii) determined by including as pensionable Earnings the amount of the deferred compensation under the Deferred Compensation Plan and the Prudential Supplemental Employee Savings Plan that would, but for the deferral of payment, constitute pensionable Earnings under the Retirement System (including such compensation that would have constituted Earnings had it not exceeded the limit on compensation imposed by Code section 401(a)(17) and determined without regard to the limits on benefits imposed by Code section 415(b)); and

(2) such Participant's retirement benefits that are payable under the Retirement System.

4

ARTICLE III

SPECIAL EARLY RETIREMENT BENEFITS

3.1 Eligibility. Each participant in the Retirement System (a) who is entitled, under the terms of the Retirement System, to a benefit payable under the Prudential Traditional Retirement Plan or to a Subsidized Grandfathered Minimum Benefit payable under the Prudential Cash Balance Plan, (b) who retires directly from Employer service as an Office Employee on or after the first day of the month coinciding with or next following such Participant's fifty-ninth (59th) birthday, (c) who could complete twenty-five (25) years of Continuous Service for the Employer before the first day of the month coinciding with or next following such Participant's sixty-fifth (65th) birthday, and (d) whose last three consecutive years of Continuous Service were at a grade from 1 through 6 and/or a rank no lower than that of departmental vice president or managing director, or the equivalent of such grade or rank, is a Participant eligible to accrue Special Early Retirement Benefits under this Article. For a Participant in the Prudential Cash Balance Plan to receive such Special Early Retirement Benefits, the Participant must commence his or her Subsidized Grandfathered Minimum Benefit under the terms of the Prudential Cash Balance Plan in the form of an annuity.

3.2 Amount. The amount of a Participant's Special Early Retirement Benefits, in the case of a Participant who retires before his or her Normal Retirement Date, shall be an amount equal to the excess, if any, of (a) over (b) below:

(a) such Participant's accrued retirement benefits under the Prudential Traditional Retirement Plan or Subsidized Grandfathered Minimum Benefit under the Cash Balance Plan, and accrued benefits under Article II of this Plan without reductions for early commencement of benefits, multiplied by the applicable adjustment factor in paragraphs (1), (2) or (3) set forth below:

(1) if the Participant retires on or after the first day of the month following the date he or she has both completed twenty-five (25) year of Continuous Service with the Employer and attained age sixty (60), the adjustment factor used in determining such benefits shall be equal to 1.00;

(2) if the Participant retires on or after the first day of the month following the date he or she attains age sixty (60) and before he or she has completed twenty-five (25) years of Continuous Service with the Employer, the adjustment factor used in determining such benefits shall be equal to 1.00, reduced by 5/9 of 1.00% for each full month by which the Participant's Annuity Starting Date precedes the first day of the month following the date such Participant would have completed twenty-five (25) years of Continuous Service with the Employer; or

(3) if the Participant retires on or after the first day of the month following the date he or she attains age fifty-nine (59) and prior to the first day of the month following the date he or she attains age sixty (60), the adjustment factor used in determining such benefits shall be equal to 1.00,

(i) reduced by 5/9 of 1.00% for each full month by which the Participant's Annuity Starting Date precedes the first day of the month following the date such Participant would have completed twenty-five (25) years of Continuous Service with the Employer, but excluding any full months by which the Participant's Annuity Starting Date precedes the first day of the month following attainment of age sixty (60), and

5

(ii) further reduced for each remaining full month, if any, by which the Participant's Annuity Starting Date precedes the first day of the month following attainment of age sixty (60) by one-twelfth of the excess of: (A) the adjustment factor set forth in subparagraph (i) above, over (B) the adjustment factor applicable at age fifty-nine (59) under the Prudential Traditional Retirement Plan; and

(b) such Participant's accrued early retirement benefits under Article XI of the Retirement System (or any successor provision) or Subsidized Grandfathered Minimum Benefit payable at early retirement under the Prudential Cash Balance Plan, and such Participant's accrued benefits under Article II of this Plan (as adjusted to reflect the early commencement of benefits).

6

ARTICLE IV

DUAL BENEFITS

If a Participant is entitled, under the terms of the Retirement System, both to a benefit payable under the Prudential Traditional Retirement Plan and to a benefit payable under the Prudential Cash Balance Plan, Plan provisions applicable to Participants entitled to benefits payable under the Prudential Traditional Retirement Plan shall apply only with respect to Plan benefits calculated by reference to the Prudential Traditional Retirement Plan. Similarly, Plan provisions applicable to Participants entitled to benefits payable under the Prudential Cash Balance Plan shall apply only with respect to Plan benefits calculated by reference to the Prudential Cash Balance Plan.

7

ARTICLE V

PAYMENT OF BENEFITS

5.1 Payment of Benefits. If a Participant has accrued any benefits described in Articles II and III of the Plan and is 100% vested (not including amounts 100% vested solely on account of the application of Code section 420) under the Retirement System (or is vested in this Plan pursuant to Section 9.1(c)), such Participant shall, subject to Section 5.3 below, begin receiving Plan payments on the date monthly benefits commence under the Retirement System and payments shall continue monthly thereafter, as long as payments to the Participant or the Participant's beneficiary are made for that same month under the Retirement System.

5.2 Form of Benefit. Subject to Sections 5.3 and 5.4 below, benefits payable under the Plan shall be paid to the Participant (and his or her beneficiary) in the same form (or forms) of benefit as the benefit payable to such Participant (and beneficiary) under the applicable component of the Retirement System; provided, however, that:

(a) the variable annuity option described in the Prudential Traditional Retirement Plan is not available with respect to payments under the Plan (and, to the extent a Participant elects a variable annuity option under the Retirement System for some or all of his or her benefit, payments under the Plan with respect to that portion of the Participant's benefit shall be made in the standard forms set out in Section 1501 of the Prudential Traditional Retirement Plan); and

(b) the level income option described in the Prudential Traditional Retirement Plan will be applied so that payments under the Plan are adjusted, if necessary, so that the sum of the Participant's benefits under the Prudential Traditional Retirement Plan, Primary Insurance Benefits related to Active Service with the Company expected to become payable under Title II of the Federal Social Security Act, and benefits under the Plan are as nearly uniform as practical each month both before and after the earliest date the Participant could receive payment of such Primary Insurance Benefits.

5.3 Single Sum for Participants Entitled to Benefits under the Prudential Traditional Retirement Plan.

(a) Effective January 1, 1990, in lieu of receiving benefits at the

time and in the form set forth in Sections 5.1 and 5.2, a Participant who is entitled, under the terms of the Retirement System, to a benefit payable under the Prudential Traditional Retirement Plan, and who meets the requirements set forth in paragraph (d) below, may elect to receive Plan benefits in a single sum payment pursuant to this Section 5.3 without regard to the form of retirement benefit payable to the Participant under the Prudential Traditional Retirement Plan. Such election must be in writing and shall be irrevocable.

(b) The single sum shall be paid to the Participant on such Participant's Annuity Starting Date under the Prudential Traditional Retirement Plan (or as soon as practicable thereafter). Effective for any election received by the Committee on or after March 1, 1995, the single sum shall be paid to the Participant on the later of (1) such Participant's Annuity Starting Date under the Prudential Traditional Retirement Plan or (2) the one-year anniversary of the date the Committee, or its designee, receives such Participant's election of the single sum benefit (or as soon as practicable thereafter). Such single sum benefit shall be in lieu of all benefits otherwise payable to the Participant (and his or her beneficiary) under the Plan and no death benefit (other than the death benefit described in Section 6.4) shall be payable under the Plan to the Participant's beneficiary.

8

(c) The amount of the single sum payment is the consideration that would be required on the Participant's Annuity Starting Date under the Prudential Traditional Retirement Plan pursuant to the interest and mortality assumptions specified by the Committee for use on the actual date of the single sum payment, to purchase all benefits otherwise payable to the Participant under Articles II and III of the Plan in the form of a single life annuity with a fifteen (15) year period certain for an unmarried Participant or a fifty percent (50%) joint and survivor annuity for a married Participant.

(d) A Participant may receive the single sum payment provided under this Section 5.3 if and only if such Participant (1) makes the election to receive the single sum (and the Committee, or its designee, receives such election) prior to the date he or she terminates employment with the Controlled Group, (2) is eligible to retire (including early retirement) under the Prudential Traditional Retirement Plan at the time of termination of employment with the Controlled Group, and (3) survives until the expected payment date (such date being, as applicable, the later of: (i) the Participant's Annuity Starting Date under the Prudential Traditional Retirement Plan; and (ii) the one-year anniversary of the date the Committee receives the Participant's single sum election).

(e) If a Participant who has elected the single sum payment does not survive until the expected payment date, Plan benefits shall be paid to the beneficiary on the expected payment date as if the Participant had survived to the expected payment date.

(f) If a Participant who has elected the single sum payment is otherwise not eligible to receive the single sum payment, Plan benefits shall be paid to the Participant (and/or the beneficiary, as the case may be), as if the Participant had not elected the single sum payment under this Section 5.3; provided, however, that in the event payments have already commenced to the Participant under the Prudential Traditional Retirement Plan but the Participant has not yet received Plan benefits because the single sum could not be paid until the one-year anniversary date of the single sum election (the "waiting period"), the Participant (or the beneficiary, as the case may be) shall receive the amount of Plan benefits that would have been paid to the Participant during the waiting period if Plan benefits had been paid pursuant to Sections 5.1 and 5.2 above.

5.4 Grandfathered Benefit Forms for Certain Participants. In the event a Participant elects to receive the greater of the Participant's Grandfathered Minimum Benefit or Subsidized Grandfathered Minimum Benefit under the Prudential Cash Balance Plan in an annuity form described in Article XV of the Prudential Traditional Retirement Plan, such election shall also apply (subject to Section 5.2) to the Special Early Retirement Benefit described in Article III and to such portion of the Participant's Supplemental Benefit described in Article II that would have constituted the Participant's Grandfathered Minimum Benefit or Subsidized Grandfathered Minimum Benefit under the Prudential Cash Balance Plan but for the application of the limit on compensation imposed by Code section 401(a)(17), the application of Code section 415(b), or the exclusion from pensionable Earnings of deferrals described in Article II. Any remaining portion of the Participant's benefit under this Plan will be payable under the same terms that apply to the Wear-Away Protection and/or Residual Amounts under the Prudential Cash Balance Plan.

9

ARTICLE VI

DEATH BENEFITS

6.1 Pre-Retirement Survivor Annuity Benefits for Married Participants Entitled to Benefits under the Prudential Traditional Retirement Plan.

(a) Surviving Spouse Eligibility. With respect to each Participant entitled to benefits under the Prudential Traditional Retirement Plan, the surviving spouse of each Participant who dies prior to the commencement of the payment of benefits under the Plan pursuant to Article V above, who is entitled to receive qualified pre-retirement survivor annuity benefits under the Prudential Traditional Retirement Plan, is entitled to receive pre-retirement spouse annuity benefits under this Section 6.1(a).

(1) Amount. The amount of a surviving spouse's monthly pre-retirement spouse annuity benefits shall be equal to fifty percent (50%) of the monthly benefits that would have been payable to the Participant under the Plan if such Participant had:

(i) elected to commence receiving benefits on the day before the Participant's death, if death occurs after the date the Participant attained the earliest possible Early Retirement Date under the terms of the Prudential Traditional Retirement Plan; or

(ii) experienced a Termination of Employment on the Participant's date of death, survived to the Participant's earliest possible Early Retirement Date under the terms of the Prudential Traditional Retirement Plan, and died on the following day.

(2) Payment of Benefits. Benefit payments to a surviving spouse will be paid in the same manner and at the same time that pre-retirement survivor annuity benefits for married participants are paid under the Prudential Traditional Retirement Plan.

(b) Beneficiary Eligibility. If a married Participant who dies prior to the commencement of the payment of benefits under the Plan pursuant to Article V above elects under the Prudential Traditional Retirement Plan payment of pre-retirement death benefits in the form of subsidized pre-retirement fifteen (15) year period certain benefits for a beneficiary rather than in the form of pre-retirement survivor annuity benefits for a surviving spouse, and the beneficiary is entitled to receive such benefits under the Prudential Traditional Retirement Plan, such beneficiary is entitled to receive pre-retirement fifteen (15) year period certain benefits under this Section 6.1(b).

(1) Amount. The amount of a beneficiary's monthly pre-retirement fifteen (15) year period certain benefit shall be the same amount that would have been payable to the beneficiary under the Plan under a subsidized post-retirement fifteen (15) year period certain optional form of benefit if the Participant had elected to commence receiving benefits in such form on the date of the Participant's death.

(2) Payment of Benefits. Benefit payments to a beneficiary will be paid in the same manner and at the same time that pre-retirement fifteen (15) year period certain benefits are paid under the Prudential Traditional Retirement Plan.

6.2 Pre-Retirement Period Certain Benefits for Unmarried Participants Entitled to Benefits under the Prudential Traditional Retirement Plan. With respect to each Participant entitled to benefits under the Prudential Traditional Retirement Plan, if each Participant elects, or is deemed to have elected, subsidized pre-retirement fifteen (15) year period certain benefits for unmarried participants under the Prudential Traditional Retirement Plan, that same election shall

10

apply with respect to benefits accrued under the Plan. The amount of a beneficiary's monthly pre-retirement fifteen (15) year period certain benefit for unmarried Participants shall be the same amount that would have been payable to the beneficiary under the Plan under a subsidized post-retirement fifteen (15) year period certain form of benefit if the Participant had elected to commence receiving benefits in such form on the date of the Participant's death. Benefit payments to a beneficiary will be paid in the same manner, and at the same time, that pre-retirement fifteen (15) year period certain benefits for unmarried participants are paid under the Prudential Traditional Retirement Plan.

6.3 Pre-Retirement Death Benefits for Participants Entitled to Benefits under the Prudential Cash Balance Plan. With respect to each Participant entitled to benefits under the Prudential Cash Balance Plan, the surviving spouse or beneficiary of each Participant (who dies prior to the commencement of the payment of benefits under the Plan pursuant to Article V above) who is entitled as surviving spouse or beneficiary under the Prudential Cash Balance Plan to receive pre-retirement death benefits under Section 6.2 of the Prudential Cash Balance Plan, is entitled to receive pre-retirement death

benefits under this Section 6.3

(a) Amount. The amount of a surviving spouse's or beneficiary's pre-retirement death benefit shall be equal to a single life annuity that is the Actuarial Equivalent (as defined in the Prudential Cash Balance Plan) of the Participant's Supplemental Benefits set out in Article II.

(b) Payment of Benefits. Benefit payments to a surviving spouse or beneficiary will be paid in the same manner (including in the form of a lump sum) and at the same time that pre-retirement death benefits are paid under Section 6.2 of the Prudential Cash Balance Plan.

6.4 Additional Death Benefit. If a Participant: (a) who is in service with an Employer prior to 1970; (b) who is eligible to receive Special Early Retirement Benefits; and (c) dies on or after the first day of the month following such Participant's attainment of age sixty-five (65) and (1) while in Employer service or (2) after having retired directly from Employer service, a single sum death benefit shall be payable as of the date of such Participant's death (in addition to any other death benefits payable under the Plan). The single sum death benefit payable under this paragraph shall be equal to the amount of one year's payments of the portion of such Special Early Retirement Benefits accrued prior to 1970 payable in the form of a single life annuity (without regards to the manner in which Special Early Retirement Benefits are actually paid to a Participant). The single sum death benefit shall be payable as of the date of such Participant's death to a beneficiary or beneficiaries designated by the Participant, if any, or otherwise to the Participant's estate. By proper written request to the Company, in accordance with established rules, a Participant may designate one or more beneficiaries, and may change any beneficiary previously designated.

11

ARTICLE VII

AD HOC COST OF LIVING ADJUSTMENTS

7.1 September 1, 1996 Cost of Living Adjustment.

(a) Subject to paragraph (b) below, the cost of living adjustment granted on September 1, 1996 to certain Participants (as defined in the Retirement System), spouses, and beneficiaries shall be provided under this Plan to the extent such cost of living adjustment cannot be paid under the Retirement System by reason of Code section 401(a)(17) or 415 (as reflected in the applicable provisions of the Retirement System). Such cost of living adjustment shall be provided in the same form and at the same time as the cost of living adjustment provided under the Retirement System.

(b) In the event a Participant who is eligible for the cost of living adjustment granted on September 1, 1996 under the Retirement System elects to receive a single sum distribution under this Plan, such Participant shall not receive a cost of living adjustment under this Section 7.1. Likewise, in the event a spouse or beneficiary who is eligible for the cost of living adjustment granted on September 1, 1996 under the Retirement System is the spouse or beneficiary of a Participant who elected to receive a single sum distribution under this Plan, such spouse or beneficiary shall not receive a cost of living adjustment under this Section 7.1.

12

ARTICLE VIII

ADMINISTRATION OF THE PLAN

8.1 Administration of the Plan.

(a) The Plan shall be administered by the Committee. The Committee shall maintain such procedures and records as will enable the Committee to determine the Participants and their beneficiaries who are entitled to receive benefits under the Plan and the amounts thereof.

(b) The head of the Human Resources Department of the Company may, in his or her sole discretion, exercise the authority of the Committee and act as the Committee in administering the Plan.

8.2 General Powers of Administration.

(a) The Committee shall have the exclusive right, power and authority to interpret, in its sole discretion, any and all of the provisions of the Plan; and to consider and decide conclusively any questions (whether of fact or otherwise) arising in connection with the administration of the Plan or any claim for benefits arising under the Plan. Any decision or action of the Committee shall be conclusive and binding.

(b) Provisions set forth in the Retirement System with respect to claims and appeals procedures, and immunities of the Committee (as defined in the Retirement System) shall also be applicable with respect to the Plan.

13

ARTICLE IX

AMENDMENT AND TERMINATION

9.1 Change or Termination of the Plan.

(a) The Company reserves the right to amend or terminate the Plan in any respect and at any time and may do so pursuant to a written resolution of the Compensation Committee of the Board of Directors. Prior to August 12, 1997, such amendment or termination may include, without limitation, discontinuing payments to Participants (and beneficiaries) who have, prior to the time of amendment or termination, received such payments; provided, however, that no amendment or termination of the Plan may adversely affect (1) the rights of any spouse who, before the effective date of such amendment or termination, has commenced receiving pre-retirement spouse annuity benefits under Section 6.1 or (2) the accrued benefit of any Participant, or beneficiary to benefits that are vested pursuant to Section 9.1(c) below.

Effective August 12, 1997, no amendment or termination of the Plan shall have the effect of reducing a Participant's accrued benefit under the Plan or vesting status under the Plan as in effect immediately prior to the adoption of such amendment or termination of the Plan (or, if later, the effective date of such amendment or termination of the plan); provided, however, that the Company reserves the right to amend or change any optional forms of benefit provided under the Plan in any respect and at any time.

(b) The head of the Human Resources Department of the Company may adopt minor amendments to the Plan without approval by the Compensation Committee of the Board of Directors that (1) are necessary or advisable for purposes of compliance with applicable laws and regulations, (2) relate to administrative practices, or (3) have an insubstantial financial effect on Plan benefits and expenses.

(c) Each Participant in service on or after January 1, 1994 (or beneficiary of such Participant) shall be fully vested in benefits accrued prior to January 1, 1994 under the Plan or under one or more of the Prior Programs.

14

ARTICLE X

GENERAL PROVISIONS

10.1 Participant's Rights Unsecured and Unfunded. The Plan at all times shall be entirely unfunded. No assets of the Company or any other Participating Affiliated Company shall be segregated or earmarked to represent the liability for accrued benefits under the Plan. The right of a Participant (or his or her beneficiary) to receive a payment hereunder shall be an unsecured claim against the general assets of the Company. All payments under the Plan shall be made from the general assets of the Company.

10.2 Transfer of Obligations. Effective December 10, 1996, by written action of the Chief Financial Officer of the Company as memorialized in an officer's certificate, the Company may transfer and thereby be released from its primary liability for all or part of its payment obligations under the Plan, provided that the transferee is an affiliate of the Company, the Company and the transferee enter into a written agreement with respect to the transfer and assumption of liabilities, and the rights of the employees to receive their benefits under the Plan are not impaired as a result of the transfer and assumption of liabilities under and in accordance with the transfer and assumption agreement.

10.3 No Guarantee of Benefits. Nothing contained in the Plan shall constitute a guaranty by the Employer or any other person or entity that the assets of the Company will be sufficient to pay any benefit hereunder.

10.4 No Enlargement of Employee Rights. Participation in the Plan shall not be construed to give any Participant the right to be retained in the service of any Employer.

10.5 Non-Alienation Provision. No interest of any person or entity in, or right to receive a benefit or distribution under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor may such interest or right to receive a distribution be taken, either voluntarily or involuntarily for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims for alimony, support, separate maintenance

and claims in bankruptcy proceedings.

10.6 Applicable Law. The Plan shall be construed and administered under the laws of the State of New Jersey, except to the extent that such laws are preempted by ERISA.

10.7 Taxes. To the extent required by law, amounts accrued under the Plan shall be subject to federal and state income, federal social security and federal or state unemployment taxes during the year the services giving rise to such amounts were performed (or, if later, when the amounts are both determinable and not subject to a substantial risk of forfeiture). The Company, the Employer or the Participating Subsidiary (as applicable) shall withhold from any payments made pursuant to the Plan such amounts as may be required by federal, state or local law, and the Company, the Employer or the Participating Subsidiary (as applicable) further reserves the right: (a) to limit or reduce the amounts intended to be deferred under the terms of the Plan as may be necessary or appropriate in order to ensure that any required tax withholdings can be deducted; and/or (b) to require the Participant to pay any taxes owed on such amounts through personal check or payroll deduction.

10.8 Excess Payments. If the compensation, years of service, age, or any other relevant fact relating to any person is found to have been misstated, the Plan benefit payable by the Company to a Participant or Beneficiary shall be the Plan benefit which would have been provided on the basis of the correct information. Any excess payments due to such misstatement,

15

or due to any other mistake of fact or law, shall be refunded to the Company or withheld by it from any further amounts otherwise payable under the Plan.

10.9 No Impact on Other Benefits. Amounts accrued or paid under the Plan shall not be included in a Participant's compensation for purposes of calculating benefits under any other plan, program or arrangement sponsored by the Employer or Participating Subsidiary, unless such plan, program or arrangement expressly provides that amounts accrued or paid under the Plan shall be included.

10.10 Data. Each Participant or beneficiary shall furnish the Committee with all proofs of dates of birth and death and proofs of continued existence necessary for the administration of the Plan, and the Company shall not be liable for the fulfillment of any Plan benefits in any way dependent upon such information unless and until the same shall have been received by the Committee, or its designee, in a form satisfactory to it.

10.11 Incapacity of Recipient. If a Participant or other beneficiary entitled to a distribution under the Plan is living under guardianship or conservatorship, distributions payable under the terms of the Plan to such Participant or Beneficiary shall be paid to his or her appointed guardian or conservator and such payment shall be a complete discharge of any liability of the Company under the Plan.

10.12 Usage of Terms and Headings. Words in the masculine gender shall include the feminine and the singular shall include the plural, and vice versa, unless qualified by the context. Any headings are included for ease of reference only, and are not to be construed to alter the terms of the Plan.

IN WITNESS WHEREOF, The Prudential Insurance Company of America has caused this restatement to be executed as of December 12, 2001, effective January 1, 2001, except as otherwise provided herein.

THE PRUDENTIAL INSURANCE
COMPANY OF AMERICA

By: /s/ Michele S. Darling

Michele S. Darling
Executive Vice President

16

PRUDENTIAL SUPPLEMENTAL
EMPLOYEE SAVINGS PLAN

(effective as of January 1, 2001)

The Prudential Supplemental Employee Savings Plan (the "Plan") has been established by The Prudential Insurance Company of America, effective January 1, 2001 (the "Effective Date"), for the purpose of providing unfunded benefits for certain eligible employees (and their beneficiaries) that are in excess of the limits on contributions to the Prudential Employee Savings Plan ("PESP") imposed by either Sections 401(a)(17) and 415(c)(1)(A) of the Internal Revenue Code of 1986, as amended (the "Code").

The portion of the Plan that provides unfunded benefits in excess of the limits imposed by Section 415(c)(1)(A) of the Code (the "Code Contribution Limit," as hereafter defined) is intended to be, and shall be administered as, an "excess benefit plan" within the meaning of Section 3(36) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). The remainder of the Plan is intended to be, and shall be administered as, an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees within the meaning of Title I of ERISA.

This Plan is an amendment and restatement of The Prudential Insurance Company of America Defined Contribution Excess Program, The Prudential Insurance Company of America Non-Qualified Deferred Compensation Plan, and The Prudential Insurance Company of America Supplemental Savings Program (also known as The Prudential Insurance Company of America Supplemental Executive Savings Plan), each as maintained by The Prudential Insurance Company of America prior to the Effective Date (collectively, the "Prior Programs"). Amounts credited, but not yet paid under the Prior Programs prior to the Effective Date shall be paid, administered, and continue to accrue interest pursuant to the terms of this Plan.

ARTICLE I

DEFINITIONS

The following terms shall have the meanings hereinafter set forth. Other terms that are capitalized in this Plan and that are not defined below shall be defined in the same manner as they are defined in PESP.

1

1.1 "Account" means the recordkeeping account maintained for a Participant under the Plan to credit a Participant with the amounts that he or she may become entitled under the terms of Article III of the Plan. For internal recordkeeping purposes only, each Participant's Account may be subdivided into various subaccounts by the Company, in its discretion.

1.2 "Board of Directors" means the Board of Directors of the Company.

1.3 "Code" means the Internal Revenue Code of 1986, as amended.

1.4 "Code Compensation Limit" means the requirement, set forth under Code Section 401(a)(17), that the annual compensation of each employee taken into account under a qualified profit sharing or retirement plan and trust for any year cannot exceed \$150,000 annually, adjusted for inflation.

1.5 "Code Contribution Limit" means the requirement, set forth under Code Section 415(c)(1)(A), that contributions made on behalf of any participant under a qualified defined contribution plan and trust for any year cannot exceed \$30,000 annually, adjusted for inflation.

1.6 "Committee" means the Administrative Committee described in PESP, unless otherwise exercised or designated under the provisions of Section 6.1 (b) of the Plan.

1.7 "Company" means The Prudential Insurance Company of America.

1.8 "Compensation" means "Earnings" as defined in PESP, except that Compensation shall be computed without regard to the limits imposed by the Code Compensation Limit.

1.9 "Controlled Group" means the Company and (i) each corporation which is a member of a controlled group of corporations (within the meaning of Section 414(b) of the Code) which includes the Company, (ii) each trade or business (whether or not incorporated) which is under common control with the Company (within the meaning of Section 414(c) of the Code, (iii) each

organization included in the same affiliated service group (within the meaning of Section 414(m) of the Code) as the Company, and (iv) each other entity required to be aggregated with the Company pursuant to regulations promulgated under Section 414(o) of the Code. Any such entity shall be treated as part of the Controlled Group only for the period while it is a member of the controlled group or considered to be in a common control group.

1.10 "Earnings" shall have the meaning set forth in PESP.

1.11 "Effective Date" means January 1, 2001.

2

1.12 "Eligible Employee" means an Employee who meets the eligibility requirements of Section 2.1 of the Plan.

1.13 "Employee" means an individual employed by any Employer (including, for these purposes, any individual who is not a common law employee of such Employer) who is also a participant, as of any relevant date, in PESP.

1.14 "Employer" means the Company or an Affiliate participating in PESP.

1.15 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

1.16 "401(a)(17) Deferral" means the amount credited to a Participant's Account under the Plan pursuant to Section 3.4 herein, including amounts credited under the Prior Program called The Prudential Insurance Company of America Non-Qualified Deferred Compensation Plan and interest thereon.

1.17 "401(a)(17) Matching Contribution" means the amount credited to a Participant's Account under the Plan pursuant to Section 3.5 herein, including contributions credited under the Prior Program called The Prudential Insurance Company of America Supplemental Savings Program and interest thereon.

1.18 "415 Crossover Matching Contribution" means the amount credited to a Participant's Account under the Plan pursuant to Section 3.3 herein, including contributions credited under the Prior Program called The Prudential Insurance Company of America Defined Contribution Excess Program and interest thereon.

1.19 "415 Deferral" means the amount credited to a Participant's Account under the Plan pursuant to Section 3.1 herein, including contributions credited under the Prior Program called The Prudential Insurance Company of America Non-Qualified Deferred Compensation Plan and interest thereon.

1.20 "415 Matching Contribution" means the amount credited to a Participant's Account under the Plan pursuant to Section 3.2 herein, including contributions credited under the Prior Program called The Prudential Insurance Company of America Defined Contribution Excess Program and interest thereon.

1.21 "Participant" means an Eligible Employee described in Article II who is receiving credits to his or her Account under the Plan pursuant to Article III. A Participant also includes an Eligible Employee who has previously received credits under the Plan or one of the Prior Programs, but in each case has not received full payment of his or her Account under the Plan or such Prior Programs.

1.22 "PESP" means the Prudential Employee Savings Plan, as established and effective as of January 1, 1994 and most recently amended and restated effective as of

3

January 1, 2001, as the same may be in effect from time to time, including any successor plan.

1.23 "Plan" means this Prudential Supplemental Employee Savings Plan, as amended from time to time.

1.24 "Prior Programs" means The Prudential Insurance Company of America Defined Contribution Excess Program, The Prudential Insurance Company of America Non-Qualified Deferred Compensation Plan, and The Prudential Insurance Company of America Supplemental Savings Program (also known as The Prudential Insurance Company of America Supplemental Executive Savings Plan) as in effect from time to time prior to the Effective Date.

1.25 "Termination of Employment" means an individual's voluntary or involuntary termination of employment with the Controlled Group for any reason, including death. An individual who is receiving short-term disability benefits under the Prudential Welfare Benefits Plan shall be deemed to have incurred a Termination of Employment on the date such benefits are exhausted, unless such individual has returned to work within the Controlled Group.

ARTICLE II

ELIGIBILITY AND PARTICIPATION

2.1 Eligibility.

(a) Prior Programs: Each Employee whose (i) After-Tax or Before-Tax Contributions (and any related Company Matching Contributions that may be allocated on his or her behalf to PESp) could not be made by reason of the limits on contributions contained in PESp for the purpose of satisfying the Code Contribution Limit and/or (ii) Compensation for purposes of determining the amount of After-Tax or Before-Tax Contributions (and any related Company Matching Contributions that may be allocated on his or her behalf to PESp) was limited by reason of the Code Compensation Limit shall be deemed to be an "Eligible Employee" for purposes of participating in the Prior Programs.

(b) Eligibility Requirements Effective for Plan Year 2001 and Beyond: Each Employee whose

- (i) (A) Before-Tax or Company Matching Contributions to PESp cannot be made by reason of the limits on contributions contained in PESp for the purpose of satisfying the Code Contribution Limit and/or (B) Compensation for purposes of determining the amount of Before-Tax or Company Matching Contributions that may be allocated on his or

4

her behalf to PESp is limited by reason of the Code Compensation Limit; and

- (ii) as of the time that either the Code Compensation Limit or Code Contribution Limit is reached, is either deferring Earnings under PESp or has either (A) been precluded from continuing to defer Earnings in any Plan Year under PESp due to the operation of the limitation on contributions of elective deferrals under Section 402(g) of the Code and/or the Code nondiscrimination test on contributions of elective deferrals under Code Section 401(k)(3) or (B) been precluded from receiving Company Matching Contribution under PESp in any Plan Year because of the operation of the nondiscrimination test on Company Matching Contributions under Code Section 401(m)(2);

shall be deemed to be an "Eligible Employee" for purposes of participating in the Plan.

2.2 Election to Participate in the Plan.

(a) General. Each Eligible Employee (and each individual participating in PESp who could become an Eligible Employee during the following Plan Year because of increases in Compensation or the application of the Code Contribution Limit) may elect to participate in the Plan during the following Plan Year, but only if such election is made in writing and received by the Committee, or its designee, prior to the beginning of the following Plan Year.

(b) "Late" Elections. Notwithstanding the provisions of Section 2.2(a) above, each individual who (i) becomes eligible to participate in PESp or otherwise becomes an Eligible Employee for the first time after the beginning of a Plan Year, or (ii) who again becomes an Eligible Employee after a period of ineligibility for any reason (but not within the same Plan Year), may elect to participate in the Plan during the remainder of such Plan Year, but only if such election is made in writing and received by the Committee, or its designee, no later than 30 days after the date he or she first becomes an Eligible Employee.

(c) Election is Irrevocable. An election made under this Section 2.2 may not be revoked by the Participant once a Plan Year has commenced (or if the election is made under Section 2.2(b), once the election form is received by the Committee or its designee within such 30 day period) and shall remain in force until the last day of the Plan Year (or, if earlier, the Participant's Termination of Employment in such Plan Year).

(d) Annual Elections Required; Form of Election. A new election to participate must be filed for each Plan Year, in a form and manner specified by the Committee or its designee.

5

2.3 Date Participation Commences. Effective for Plan Years beginning on or after January 1, 2001, each Eligible Employee who has elected to participate shall become a Participant and commence participation under Sections 3.1 through 3.5 of the Plan during the first payroll period during a Plan Year

at the earliest to occur of (a) the Eligible Employee's Compensation first exceeds the limit imposed by the Code Compensation Limit or (b) the inability of the Eligible Employee's Before-Tax or Company Matching Contributions to PESP to be made by reason of the limits on contributions contained in PESP for the purpose of satisfying the Code Contribution Limit; provided, however, that in either case such Eligible Employee must have filed a valid payroll deduction election under PESP related to such Plan Year in order for any amounts to be credited to an Eligible Employee under the Plan. Once an Eligible Employee commences participation in the Plan by reason of the Code Contribution Limit or the Code Compensation Limit in a particular Plan Year, such Participant shall have his benefits calculated under the Plan only by reference to such particular Limit for such year.

ARTICLE III

CONTRIBUTIONS

3.1 415 Deferral. Each Participant's Compensation for a Plan Year shall be reduced on a pre-tax basis by the amount of 415 Deferral credited to such Participant under the Plan for the Plan Year, determined as follows:

(a) Prior Programs. The amount of 415 Deferral credited to a Participant's Account under the Prior Programs was equal to a percentage of the Participant's Earnings (up to three percent (3%)) that would have been allocated to PESP but for the application of the Code Contribution Limit for such Plan Year.

(b) 415 Deferral Requirements Effective Plan Year 2001. Effective for Plan Years beginning on or after January 1, 2001, the amount of 415 Deferral that may be credited to a Participant's Account will be equal to a percentage of the Participant's Earnings that would have been allocated to PESP on the Participant's behalf as Before-Tax Contributions but for the application of the Code Contribution Limit for such Plan Year. Such percentage (up to four percent (4%)) of Earnings shall be selected at the direction of the Participant (in a form specified by the Committee or its designee).

3.2 415 Matching Contribution. The amount of 415 Matching Contribution that shall be credited to a Participant's Account for any Plan Year shall be equal to the amount of 415 Deferral, if any, credited to his or her Account for the same Plan Year under Section 3.1 herein; provided, however, that if a Participant's Earnings are not reduced by 415 Deferral during the last month of the Plan Year due to the Employer's failure to timely commence payroll deductions, such Participant shall still be credited with 415 Matching Contribution in the amount that would have been credited if such 415 Deferral had been timely deducted from the Participant's paycheck.

6

3.3 415 Crossover Matching Contributions. Each Participant shall have credited to his or her Account for a Plan Year an amount, if any, equal to the excess of (a) over (b) below:

- (a) The amount of Company Matching Contributions that would have been allocated to the PESP Company Matching Contribution Account of the Participant for the Plan Year if such Company Matching Contributions had been computed without regard to the limits imposed by the Code Contribution Limit; less
- (b) The amount of the Company Matching Contributions actually allocated to the PESP Company Matching Account of the Participant for the Plan Year;

provided, however, that in the event contributions cannot be made by the Participant to PESP because of the Code Contribution Limit in a particular Plan Year, no 415 Crossover Matching Contributions shall be credited to the Participant's Account in respect of such contributions for a Plan Year under this Section 3.3 (and may only be credited to the extent permitted under Section 3.2 above).

3.4 401(a)(17) Deferral. Each Participant's Compensation for a Plan Year shall be reduced on a pre-tax basis by the amount of the 401(a)(17) Deferral credited to such Participant under the Plan for the Plan Year, determined as follows:

(a) Prior Programs. The amount of 401(a)(17) Deferral credited to a Participant's Account for any Plan Year under the Prior Programs was equal to a percentage of the Participant's Earnings (up to three percent (3%)) that would have been allocated to PESP but for the application of the Code Compensation Limit for such Plan Year.

(b) 401(a)(17) Deferral Requirements Effective Plan Year 2001. Effective for Plan Years beginning on or after January 1, 2001, the amount of 401(a)(17) Deferral that may be credited to a Participant's Account will be equal to a percentage of the Participant's Earnings that would have been

allocated to PESP on the Participant's behalf as Before-Tax Contributions but for the application of the Code Compensation Limit for such Plan Year. Such percentage (up to four percent (4%) of Earnings shall be selected at the direction of the Participant (in a form specified by the Committee or its designee).

3.5 401(a)(17) Matching Contribution. The amount of 401(a)(17) Matching Contribution that shall be credited to a Participant's Account for any Plan Year shall be equal to the amount of 401(a)(17) Deferral, if any, credited to his or her Account for the same Plan Year under Section 3.4 herein; provided, however, that if a Participant's Earnings are not reduced by 401(a)(17) Deferral during the last month of the Plan Year due to the Employer's failure to timely commence payroll deductions, such Participant shall still be credited with 401(a)(17) Matching Contribution in the amount that would

7

have been credited if such 401(a)(17) Deferral had been timely deducted from the Participant's paycheck.

3.6 Vesting. A Participant shall be fully vested in all amounts credited to his or her Account under the Plan (including, but not limited to, amounts credited to his or her Account under the terms of the Prior Plans).

3.7 No Impact on Other Benefits. Amounts credited to a Participant's Account under this Article III shall not be included in a Participant's Compensation for purposes of calculating benefits under any other program, plan or arrangement sponsored by an Employer, unless such program, plan or arrangement expressly provides that such amount credited to a Participant under this Plan shall be included.

ARTICLE IV

VALUATION AND INTEREST ON CONTRIBUTIONS

4.1 Crediting of Contributions. 415 Deferral, 415 Matching Contribution, 415 Crossover Matching Contributions, 401(a)(17) Deferral, and 401(a)(17) Matching Contribution shall be credited to a Participant's Account as soon as practicable after the end of each payroll period, and at the same time such amount would have been contributed to the Participant's respective PESP Accounts.

4.2 Interest. Amounts credited to a Participant's Account shall begin to accrue interest on the date such amounts are credited under the Plan and continue to accrue interest until the date such amounts are distributed to the Participant. Interest shall be computed at a rate equal to the interest rate credited to The Prudential Fixed Rate Fund under PESP. The Company reserves the right to change the interest rate for future periods at any time by amendment to the Plan.

4.3 Valuation. A Participant's Account under the Plan shall be valued (including the crediting of interest under section 4.2 herein) daily.

ARTICLE V

PAYMENT OF PLAN BENEFITS

5.1 General Provision. Except as provided in Section 5.2 herein, a Participant's Account shall be paid to such Participant in a lump sum within sixty (60) days following his or her Termination of Employment, or as soon as practicable thereafter; provided that, upon the death of a Participant, such Account shall to the extent remaining unpaid, be paid to such Participant's Beneficiary as designated or otherwise

8

determined under PESP in a lump sum within sixty (60) days following the Participant's death, or as soon as practicable thereafter.

5.2 Incapacity of Recipient. If a Participant or other beneficiary entitled to a distribution under the Plan is living under guardianship or conservatorship, distributions payable under the terms of the Plan to such Participant or beneficiary shall be paid to the appointed guardian or conservator and such payment shall be a complete discharge of any liability of the Company or any other Employer under the Plan.

ARTICLE VI

ADMINISTRATION OF THE PLAN

6.1 Administration of the Plan.

(a) The Plan shall be administered by the Committee. The Committee

shall maintain such procedures and records as will enable the Committee to determine the Participants and their beneficiaries who are entitled to receive a benefit under the Plan and the amounts thereof.

(b) The Executive Vice President of Human Resources of the Company may, in his or her sole discretion, (i) exercise the authority of the Committee and act as the Committee in administering the Plan, or (ii) designate either the Vice President - Total Compensation, or the Vice President - Employee Benefits of the Company to exercise the authority of the Committee and act as the Committee in administering the Plan on his or her behalf.

6.2 General Powers of Administration.

(a) The Committee or its designee shall have the exclusive right, power and authority to interpret, in its sole discretion, any and all of the provisions of the Plan; and to consider and decide conclusively any questions (whether of fact or otherwise) arising in connection with the administration of the Plan or any ultimate claim for benefits arising under the Plan. The Appeals Committee (as defined under PESP) shall be responsible for the claims and appeals procedures under this Plan, subject to the ultimate review of the Committee or its designee. Any decision or action of the Committee shall be conclusive, final and binding.

(b) Provisions set forth in PESP with respect to the claims and appeals procedures, and immunities of the Appeals Committee (as defined in PESP), shall also be applicable with respect to the Plan.

9

6.3 Beneficiary Designation. Any designation by a Participant of a beneficiary under PESP, or determination of a beneficiary under PESP, shall also apply for purposes of this Plan.

ARTICLE VII

AMENDMENT AND TERMINATION

7.1 Amendment and Termination.

(a) The Company reserves the right to amend or terminate the Plan in any respect and at any time, and may do so pursuant to a written resolution of the Compensation Committee of the Board of Directors; provided, however, that (i) no amendment or termination of the Plan shall directly or indirectly reduce the amount credited to any Participant's Account under the Plan as of the adoption of such amendment or termination of the Plan (or, if later, the effective date of such amendment or termination of the Plan) and (ii) with respect to any acceleration of payments from the Plan to Participants (or their beneficiaries) that may be provided for by the Compensation Committee of the Board of Directors in accordance with the provisions of Section 7.2, no such acceleration of payments shall be deemed a direct or indirect reduction of amounts credited to any Participant's Account for these purposes.

(b) The Executive Vice President of Human Resources of the Company may adopt minor amendments to the Plan without approval by the Compensation Committee of the Board of Directors that (i) are necessary or advisable for purposes of compliance with applicable laws and regulations, (ii) relate to administrative practices, or (iii) have an insubstantial financial effect on Plan benefits and expenses.

7.2 Effect of Termination. Upon termination of the Plan, distribution of each Participant's Account under the Plan shall be made to the Participant (or his or her beneficiary) in the manner and at the time described in Article [V] of the Plan unless the resolution of the Compensation Committee of the Board of Directors specifies another time and manner of distribution. No additional contributions shall be credited under the Plan, but interest shall continue to be credited hereunder until the full amount has been distributed to the Participant (or his or her beneficiary).

ARTICLE VIII

GENERAL PROVISIONS

8.1 Participant's Rights Unsecured and Unfunded. This Plan is both an "excess benefit Plan" (as defined under ERISA Section 3(36)) and an unfunded plan maintained primarily to provide deferred compensation benefits for a select group of management or highly-compensated employees within the meaning of Sections 201,301

Amounts referenced in Participant Account statements are only recordkeeping devices reflecting such liability for accrued benefits. The right of a Participant (or his or her Beneficiary) to receive a payment hereunder shall be an unsecured claim against the general assets of the Company. All payments under the Plan shall be made from the general funds of the Company. The Company is not required to set aside money or any other property to fund its obligations under the Plan, and all amounts that may be set aside by the Company prior to the distribution of Account balances under the terms of the Plan remain the property of the Company.

Notwithstanding the foregoing, nothing in this Section 8.1 shall preclude the Company, in its sole discretion, after the Effective Date from establishing a "rabbi trust" or other vehicle in connection with the operation of this Plan, provided that no such action shall cause the Plan to fail to be an unfunded plan designed to satisfy the requirements of ERISA Section 3(36) or provide deferred compensation benefits for a select group of management or highly-compensated employees for purposes within the meaning of Title I of ERISA.

8.2 No Guarantee of Benefits. Nothing contained in the Plan shall constitute a guaranty by an Employer or any other person or entity that the assets of the Company will be sufficient to pay any benefit hereunder.

8.3 No Enlargement of Employee Rights. Participation in the Plan shall not be construed to give any Participant the right to be retained in the service of any Employer.

8.4 Non-Alienation Provision. No interest of any person or entity in, or right to receive a benefit or distribution under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor may such interest or right to receive a distribution be taken, either voluntarily or involuntarily for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims for alimony, support, separate maintenance and claims in bankruptcy proceedings.

8.5 Applicable Law. The Plan shall be construed and administered under the laws of the State of New Jersey, except to the extent that such laws are preempted by ERISA.

8.6 Taxes. To the extent required by law, amounts accrued under the Plan shall be subject to federal social security and unemployment taxes during the year the services giving rise to such amounts were performed (or, if later, when the amounts are both determinable and not subject to a substantial risk of forfeiture). The Company shall

11

withhold from any payments made pursuant to the Plan such amounts as may be required by federal, state or local law.

8.7 Excess Payments. If the compensation, years of service, age, or any other relevant fact relating to any person is found to have been misstated, the Plan benefit payable by the Company to a Participant or beneficiary shall be the Plan benefit which would have been provided on the basis of the correct information. Any excess payments due to such misstatement, or due to any other mistake of fact or law, shall be refunded to the Company or withheld by it from any further amounts otherwise payable under the Plan.

8.8 Data. Each Participant or beneficiary shall furnish the Committee with all proofs of dates of birth and death and proofs of continued existence necessary for the administration of the Plan, and the Company shall not be liable for the fulfillment of any Plan benefits in any way dependent upon such information unless and until the same shall have been received by the Committee in form satisfactory to it.

8.9 Usage of Terms and Headings. Words in the masculine gender shall include the feminine and the singular shall include the plural, and vice versa, unless qualified by the context. Any headings are included for ease of reference only, and are not to be construed to alter the terms of the Plan.

IN WITNESS WHEREOF, the undersigned, pursuant to the authorization granted to her by the Compensation Committee of the Board of Directors on January 9, 2001, hereby establishes the Prudential Supplemental Employee Savings Plan, effective as of January 1, 2001.

/s/ Michele S. Darling

Michele S. Darling
Executive Vice President, Human Resources
The Prudential Insurance Company
of America

Date: January 26, 2001

PRUDENTIAL SEVERANCE PLAN FOR SENIOR EXECUTIVES
(Amended and Restated as of February 12, 2002)

The Prudential Severance Plan for Senior Executives (the "Plan") was established by The Prudential Insurance Company of America (the "Company"), effective as of June 16, 2000, and is hereby amended and restated as of February 12, 2002. The Plan is intended to be, and shall be administered as, an employee welfare benefit plan as defined in Section 3(1) of the Employee Retirement Income Security Act of 1974, as amended.

Section 1 - Purpose

1.1 Except as otherwise provided in the Plan, this Plan does not provide severance pay to any terminated Employee as a matter of right, and neither the Company nor any Affiliated Company otherwise provides severance pay to terminated Employees as a matter of right.

1.2 Except as otherwise provided in the Plan, whether or not severance pay, if any, is to be paid to a terminated Employee is a matter solely within the discretion of the Company.

1.3 The purpose of this Plan is to define those circumstances under which the Company may pay severance to Eligible Employees.

Section 2 - Definitions

2.1 "Affiliated Company" means any corporation which is a member of a controlled group of corporations (within the meaning of Section 414(b) of the Code) which includes the Company, any trade or business (whether or not incorporated) which is under common control with the Company (within the meaning of Section 414(c) of the Code), any organization included in the same affiliated service group (within the meaning of Section 414(m) of the Code) as the Company, and any other entity required to be aggregated with the Company pursuant to regulations promulgated under Section 414(o) of the Code. Any such entity shall be treated as an Affiliated Company only for the period while it is a member of the controlled group or considered to be in such common control group.

2.2 "Appeals Committee" means the committee composed of three or more employees, one of whom shall be Chairperson, which shall review and make decisions on all appeals on claims for benefits pursuant to Section 5.3(b) of the Plan. The Executive Vice President of Human Resources of the Company (or successor to the duties of that office) shall designate the individual who shall be the Chairperson and the Chairperson shall designate the remaining members of the Appeals Committee, provided that no one may be a member of the Appeals Committee if he or she is also a member of the Claims Committee.

1

The Chairperson may resign by delivering his or her written resignation to the Executive Vice President of Human Resources of the Company, and the Executive Vice President of Human Resources of the Company may remove the Chairperson at any time by written notice to the Chairperson. Any member of the Appeals Committee, other than the Chairperson, may resign by delivering his or her written resignation to the Chairperson, and the Chairperson may remove any such member of the Appeals Committee at any time by written notice to such member. Vacancies shall be filled promptly by the Executive Vice President of Human Resources of the Company or the Chairperson, as applicable.

2.3 "Base Pay" means Base Pay as defined in Section 2704(b) of the Prudential Retirement Plan, as of the date of the Eligible Employee's Eligible Termination.

2.4 "Board" means the Board of Directors of the Company.

2.5 "Cause" means the following (as determined by the Company at its sole discretion): dishonesty, fraud or misrepresentation; inability to obtain or retain appropriate licenses; violation of any rule or regulation of any regulatory agency or self-regulatory agency; violation of any policy or rule of the Company or any Affiliated Company; commission of a crime; or any act or omission detrimental to the conduct of the business of the Company or any Affiliated Company.

2.6 "Claims Committee" means the committee composed of three or more employees, one of whom shall be Chairperson, which shall review and make decisions on all claims for benefits pursuant to Section 5.3(a) of the Plan. The Executive Vice President of Human Resources of the Company (or successor to the duties of that office) shall designate the individual who shall be the Chairperson and the Chairperson shall designate the remaining members of the Claims Committee, provided that no one may be a member of the Claims Committee if he or she is also a member of the Appeals Committee.

The Chairperson may resign by delivering his or her written resignation to the Executive Vice President of Human Resources of the Company, and the Executive Vice President of Human Resources of the Company may remove the Chairperson at any time by written notice to the Chairperson. Any member of the Claims Committee, other than the Chairperson, may resign by delivering his or her written resignation to the Chairperson, and the Chairperson may remove any such member of the Claims Committee at any time by written notice to such member. Vacancies shall be filled promptly by the Executive Vice President of Human Resources of the Company or the Chairperson, as applicable.

2.7 "Code" means the Internal Revenue Code of 1986, as amended.

2.8 "Company" means The Prudential Insurance Company of America.

2

2.9 "Eligible Compensation" means the sum of the following for the Eligible Employee as of the date of the Eligible Termination:

(i) Base Pay;

(ii) the total of the most recent three years' annual incentive payments, if any, made to the Eligible Employee under The Prudential Annual Incentive Plan, as amended (or the equivalent thereof as determined by the Company in its sole discretion), divided by three; provided, however, that if the Eligible Employee has been eligible for only one or two such payments during such recent three-year period, the total of such payments shall be divided by one or two, respectively, instead of three; and provided further, however, that if, in any of such years being considered, the Eligible Employee has been eligible to be considered for the payment of such an amount and such amount is determined to be zero under such plan, such zero amount will be counted for the purpose of this calculation; and

(iii) the amount, if any, that would be payable to the Eligible Employee at plan under the Prudential Long-Term Performance Unit Plan that is payable immediately after the date of the Eligible Employee's Eligible Termination.

2.10 "Eligible Employee" means an Employee of a Participating Company who at the time he or she incurs an Eligible Termination is an Employee performing services in the United States for a Participating Company.

2.11 "Eligible Termination" means an Employee's involuntary termination of employment with a Participating Company due to (i) the closing of an office or business location, (ii) a reduction in force, (iii) a downsizing, (iv) the restructuring, reorganization or reengineering of a business group, unit or department, or (v) a job elimination; provided, however, that a termination of employment with a Participating Company for any of the following reasons shall not constitute an Eligible Termination:

(A) transfer of any Employee to any (1) Affiliated Company, or (2) entity which is controlled by the Company through the ownership of a majority of its voting stock (or other equivalent ownership interest), either directly or indirectly through one or more intermediaries;

(B) voluntary termination of employment, unless the termination results from:

- (1) the Employee's participation in a voluntary separation program of a business group, unit or department; or
- (2) the Employee's rejection of an offer of a new job with the Company, an Affiliated Company or an entity which is controlled by the Company through the ownership of a majority of its voting stock (or other equivalent ownership interest), either directly or indirectly through one or more intermediaries, under circumstances where his or her current job is no longer available (such as, the job was eliminated,

3

the job or its scope was changed significantly, or the business location of the job has changed), where

(a) the new position has base salary plus

- (I) annual bonus at par if this position has a level number or
- (II) 50% of the incentive opportunity range for the annual bonus if this position has a grade number

(or the equivalent thereof) of less than 80% of the base salary plus

- (X) annual bonus at par if his or her job has a level number or
- (Y) 50% of the incentive opportunity range for the annual bonus if his or her job has a grade number

(or the equivalent thereof) of the current job, or

- (b) the following conditions are met: (I) the commuting distance from the center of the Employee's town of residence to the center of town of the new job's location is more than 49 miles, and (II) such commuting distance as determined under Section (B)(2)(b)(I) of the Plan is more than (x) 25 miles farther than the commuting distance from the center of the Employee's town of residence to the center of town of the current job's location or (y) 99 miles,

as determined by the Company in its sole discretion;

- (C) voluntary retirement;
- (D) death;
- (E) Cause;
- (F) inability to perform the basic requirements of his or her position with or without reasonable accommodation due to physical or mental incapacity and after the Employee's short-term disability benefits have expired under the terms of The Prudential Welfare Benefits Plan; or
- (G) failure to return from an approved leave of absence.

Except as otherwise provided in Appendix B of the Plan, Eligible Termination also shall not include an Employee's termination of employment with a Participating Company as a result of a court decree, outsourcing, sale (whether in whole or in part, of stock or assets), merger or other combination, spin-off, reorganization, or liquidation, dissolution or other winding up involving any Participating Company if such Employee receives a job offer

4

from any employer that is involved in such outsourcing, sale, merger or other combination, spin-off, reorganization, or liquidation, dissolution or other winding up.

2.12 "Employee" means any individual who is compensated by the Company or an Affiliated Company for services actually rendered as a regular full-time or regular part-time (but not a temporary) common law employee and who, at the time of the Eligible Termination, has attained one of the following levels or grades at the Company (or the equivalent of such level or grade as determined by the Company in its sole discretion): a level 82 or a grade 5, a level 84 or a grade 4, or a level 86 or a grade 3 or 2; provided, however, that:

- (i) any such employee (A) who is a sales employee covered by the terms of a collective bargaining agreement, (B) who is a non-management sales force employee employed in Individual Financial Services Retail and/or Prudential Property and Casualty Insurance Company and/or its affiliates (or in any successor organizations thereto) and who (I) is in training, pre-production, or (II) has been appointed to sell Company products, (C) who is a marketing assistant employed in Individual Financial Services Retail and/or Prudential Property and Casualty Insurance Company and/or its affiliates (or in any successor organizations thereto), or (D) whose level or grade at the Company or at an Affiliated Company is more senior than level 86 or grade 2 at the Company (or its equivalent as determined by the Company in its sole discretion);
- (ii) any individual who performs services for the Company or an Affiliated Company but is not treated by the Company or the Affiliated Company, as the case may be, at the time of performance of services as an employee for federal tax purposes (regardless of any subsequent recharacterization); and
- (iii) any statutory employee of the Company or an Affiliated Company under Code Section 3121(d)(3);

shall not be an Employee (or eligible for benefits) under the Plan.

2.13 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

2.14 "Participating Company" means (a) the Company, (b) any U.S. Affiliated Company that (i) participates in The Prudential Retirement Plan, or (ii) adopts the Plan by action of its own board of directors (or if the Affiliated Company does not have a board of directors, by other appropriate

action), with the consent of the Company, and (c) The WMF Group, Ltd. or its successor that is a U.S. Affiliated Company.

2.15 "Plan" means this Prudential Severance Plan for Senior Executives, as from time to time amended.

2.16 "Prudential Retirement Plan" means The Prudential Retirement Plan Document, a component of The Prudential Merged Retirement Plan, as amended, but not

5

including the Prudential Securities Incorporated Cash Balance Pension Plan Document, a component of The Prudential Merged Retirement Plan.

2.17 "Agreement and General Release" means a written document that includes a release of rights and claims from an Eligible Employee in a form that is satisfactory to, and approved by, the Company.

2.18 "Severance Pay" means the amount, if any, payable under Section 4 of the Plan to an Eligible Employee.

2.19 "Week of Eligible Compensation" means one fifty-second (1/52) of the Eligible Employee's Eligible Compensation.

Section 3 - Grant of Severance Pay

3.1 As to each Eligible Employee who has an Eligible Termination, Severance Pay will be granted to such Eligible Employee in an amount determined in accordance with Section 4.1 or Section 4.2 of the Plan, as the case may be.

3.2 As to each Eligible Employee who has an Eligible Termination, the determination of whether Severance Pay in addition to that provided under Section 4.2(i) of the Plan will be granted to any Eligible Employee (or category or group of Eligible Employees as defined by the Company) shall be made in the sole discretion of the Company; provided, however, that as to an Eligible Employee who is a level 82 or a grade 5, or a level 84 or a grade 4 at the Company (or the equivalent of each such level or grade as determined by the Company in its sole discretion) at the time of the Eligible Termination, in the event that the Compensation Committee of the Board has reserved this discretion to itself by means of a written resolution in accordance with the requirements of the Company's by-laws and the Plan, such determination shall be made in the sole discretion of the Compensation Committee of the Board; and provided further, however, that as to an Eligible Employee who is a level 86 or a grade 3 or 2 at the Company (or the equivalent of such level or grade as determined by the Company in its sole discretion) at the time of the Eligible Termination, in the event that the Board has reserved this discretion to itself by means of a written resolution, such determination shall be made in the sole discretion of the Board.

3.3 Agreement and General Release. Any Severance Pay payable to an Eligible Employee under the Plan shall be conditioned upon the Eligible Employee signing an Agreement and General Release and not exercising his or her right of revocation under the Agreement and General Release. Any grant of Severance Pay shall be null and void upon an Eligible Employee's failure to sign, or subsequent revocation of, such Agreement and General Release. Any breach by an Eligible Employee of an Agreement and General Release upon which any grant of Severance Pay has been conditioned shall give the Company the right to terminate any payment otherwise due

6

and/or to the return of such Severance Pay, in addition to any other remedy the Company may have.

Section 4 - Determination of Amount of Severance Pay

4.1 Amount of Severance Pay from Schedule. Except as otherwise provided in Section 4.2 and/or Section 4.3 of the Plan, as to each Eligible Employee who has an Eligible Termination, Severance Pay will be granted to such Eligible Employee in an amount equal to the product of the Eligible Employee's Week of Eligible Compensation and the number of weeks determined in accordance with the schedule in Appendix A of the Plan (with the result rounded up to the next higher \$100 increment, unless the result is already a multiple of \$100).

4.2 Minimum Amount of Severance Pay. Except as otherwise provided in Section 4.3 of the Plan, if the total amount of Severance Pay determined under Section 4.2(i) and Section 4.2(ii) of the Plan exceeds the amount of Severance Pay otherwise determined under Section 4.1 of the Plan, such greater amount shall be payable to the Eligible Employee.

(i) Under the Schedule. As to each Eligible Employee who has an Eligible Termination, Severance Pay will be granted to such Eligible Employee in

an amount equal to the product of the Eligible Employee's Week of Eligible Compensation and the number of weeks determined in accordance with the following schedule (with the result rounded up to the next higher \$100 increment, unless the result is already a multiple of \$100):

LEVEL OR GRADE AT THE COMPANY (OR ITS EQUIVALENT)	NUMBER OF WEEKS
Level 82 or Grade 5	52
Level 84 or Grade 4	52
Level 86 or Grade 3 or 2	52

(ii) Discretionary Amount. As to each Eligible Employee who has an Eligible Termination, the Company shall determine, in its sole discretion, the amount of Severance Pay, if any, in addition to that provided under Section 4.2(i) of the Plan that shall be granted to an Eligible Employee, subject to the following limitation: such additional Severance Pay shall not exceed the product of the Eligible Employee's Week of Eligible Compensation and 26; provided, however, that as to an Eligible Employee who is a level 82 or a grade 5, or a level 84 or a grade 4 at the Company (or the equivalent of each such level or grade as determined by the Company in its sole discretion) at the time of the Eligible Termination, in the event that the Compensation Committee of the Board has reserved this discretion to itself by means of a written resolution in accordance with the requirements of the Company's by-laws and the Plan, such determination shall be made in the sole discretion of the Compensation Committee

7

of the Board; and provided further, however, that as to an Eligible Employee who is a level 86 or a grade 3 or 2 at the Company (or the equivalent of such level or grade as determined by the Company in its sole discretion) at the time of the Eligible Termination, in the event that the Board has reserved this discretion to itself by means of a written resolution, such determination shall be made in the sole discretion of the Board.

4.3 Offsets and Maximum Amount of Severance Pay. Any Severance Pay payable under Section 4.1 or Section 4.2 of the Plan, as the case may be, shall be reduced by the following (with the result rounded up to the next higher \$100 increment, unless the result is already a multiple of \$100):

- (i) as to any Eligible Employee who has attained eligibility for an Additional Retirement Benefit under Article XXVII of the Prudential Retirement Plan, the Base Amount of such Additional Retirement Benefit as defined in Section 2704(a) under the Prudential Retirement Plan;
- (ii) any severance payment under the Prudential Severance Plan and/or the Prudential Severance Plan for Executives;
- (iii) as to any Eligible Employee who is employed in the Alternative Dispute Resolution area of the Policyowner Relations Division of Operations and Systems and has received a completion bonus, the amount of such completion bonus; and
- (iv) any separation or other similar benefits of any kind from the Company or any Affiliated Company or any plan or program sponsored by the Company or any Affiliated Company (including, but not limited to, any separation provisions under an employment agreement and/or an offer letter);

for the same or a previous termination of employment, as determined by the Company in its sole discretion; provided, however, that any such reduction will not be made more than once under the Plan and under any other separation or other similar benefits of any kind from the Company or any Affiliated Company or any plan or program sponsored by the Company or any Affiliated Company (including, but not limited to, the Prudential Severance Plan, the Prudential Severance Plan for Executives and any separation provisions under an employment agreement and/or an offer letter), as determined by the Company in its sole discretion.

Notwithstanding anything to the contrary in the Plan, in no event, however, may the Severance Pay granted to any Eligible Employee under the Plan (and under any other plan or program of the Company and/or a Participating Company that provides severance benefits, including, but not limited to, the Prudential Severance Plan and/or the Prudential Severance Plan for Executives, as determined by the Company in its sole discretion) for a given Eligible Termination exceed the maximum permitted for employee welfare benefit

plans such as the Plan under Section 2510.3-2(b)(1)(ii) of Title 29 of the Code of Federal Regulations (or any successor thereto).

4.4 Reductions of Severance Pay. Any Severance Pay which the Company may grant to an Eligible Employee may, in the sole discretion of the Company, be reduced by any amounts owed by the Eligible Employee to the Company or the Participating Company. The Eligible Employee's right to receive such Severance Pay is conditioned upon his or her agreement to execute any documents deemed necessary or appropriate by the Company to reduce the Severance Pay by any such amounts owed.

4.5 Repayment of Severance Pay upon Rehire. If an Eligible Employee who has incurred an Eligible Termination and been granted Severance Pay is rehired by any Participating Company or Affiliated Company, the payment of Severance Pay shall terminate immediately on the date of such rehire, and the Company may, in its sole discretion, require the Eligible Employee to return any or all amounts of Severance Pay that have been paid to the Eligible Employee.

4.6 Form of Payment of Severance Pay, and Taxes. Payment of any Severance Pay will be made in a lump sum as soon as practicable after the date of the Eligible Employee's Eligible Termination, but not sooner than after receipt by the Company of a fully executed Agreement and General Release and the exhaustion of any revocation period thereunder. The Participating Company shall withhold from any payments made pursuant to the Plan such amounts as may be required by federal, state or local law.

Section 5 - Interpretation and Administration

5.1 The Claims Committee shall administer the Plan (except as otherwise provided in the Plan). The Company and/or the Claims Committee, as the case may be, shall maintain such procedures and records as each deems necessary or appropriate. The plan year for keeping the records of the Plan shall be the calendar year. Notwithstanding anything in the Plan to the contrary, whenever the Company takes any action under the Plan, it shall do so as an exercise of a settlor function and shall not be acting as a fiduciary.

5.2 The Claims Committee, which shall be the Plan administrator, shall have the exclusive right, power and authority to interpret, in its sole discretion, any and all provisions of the Plan; and to consider and decide conclusively any questions (whether of fact or otherwise) arising in connection with the administration of the Plan or any claim for Severance Pay arising under the Plan. Any decision or action of the Company or the Claims Committee, as the case may be, shall be conclusive and binding.

5.3 (a) Claims. All inquiries and claims respecting the Plan shall be in writing directed to the Claims Committee at such address as may be specified from time to time. In accordance with Section 5.4 of the Plan, the Claims Committee may appoint itself, one or more of its number, or any employee in the Human Resources Department

of the Company to hear claims for benefits. In the case of a claim respecting benefits paid or payable to an Eligible Employee, a written determination granting or denying the claim shall be furnished to the claimant within 90 days of the date on which the claim is filed. If special circumstances, including, but not limited to, the advisability of a hearing, require a longer period, the claimant will be notified in writing, prior to the expiration of the 90-day period, of the reasons for an extension of time; provided, however, that no extensions will be permitted beyond 90 days after expiration of the initial 90-day period. A denial or partial denial of a claim shall be dated and signed by the Claims Committee and shall clearly set forth the following information:

- (i) the specific reason or reasons for the denial;
- (ii) specific reference to pertinent Plan provisions on which the denial is based;
- (iii) a description of any additional material or information necessary for the claimant to perfect the claim and an explanation of why such material or information is necessary; and
- (iv) an explanation of the review procedure set forth in Section 5.3(b) of the Plan.

If no written determination is furnished to the claimant, then the claim shall be deemed denied and the review procedure described in Section 5.3(b) of the Plan will become available to the claimant.

(b) Appeals. A claimant may obtain review of an adverse benefit determination by filing a written notice of appeal with the Appeals Committee within sixty (60) days after the determination date or, if later, within sixty (60) days after the receipt of a written notice denying the claim. Thereupon the Appeals Committee shall appoint one or more persons in accordance with Section

5.4 of the Plan who shall conduct a full and fair review, which shall include the appellant's right:

- (i) to be represented by a spokesman;
- (ii) to present a written statement of facts and of the appellant's interpretation of any pertinent document, statute or regulation; and
- (iii) to receive a prompt written decision clearly setting forth findings of fact and the specific reasons for the decision written in a manner calculated to be understood by the appellant and containing specific references to pertinent Plan provisions on which the decision is based.

A decision shall be rendered no more than sixty (60) days after receipt of the request for review, except that such period may be extended for an additional sixty (60) days if the person or persons reviewing the appeal determine that special circumstances, including, but not limited to, the advisability of a hearing, require such extension. The Appeals Committee may appoint itself, one or more of its number, or any other person or persons whether or not connected with the Company to review an appeal, in accordance with Section 5.4 of the Plan.

10

(c) Claimants must follow the claims procedures described in Sections 5.3(a) and 5.3(b) of the Plan before taking action in any other forum regarding a claim for benefits under the Plan. Any suit or legal action initiated by a claimant under the Plan must be brought by the claimant no later than one year following a final decision on the claim for benefits by the Claims Committee (including the decision on any appeal of the claim by the Appeals Committee). This one-year statute of limitations on suits for benefits shall apply in any forum where a claimant initiates such suit or legal action.

5.4 The Company pursuant to action by the Executive Vice President of Human Resources of the Company (or successor thereto), the Claims Committee and the Appeals Committee shall each have the power to delegate their respective responsibilities under the Plan to one or more of its members or officers, as the case may be, or to employees or to other individuals or organizations, as the case may be, by notifying them as to the duties and responsibilities delegated. Each person to whom responsibilities are so delegated shall serve at the pleasure of the entity or person making the delegation and, if an Employee, without payment of additional compensation for such services. Any such person may resign by delivering a written resignation to the entity or person that made the delegation. Vacancies created by resignation, death or other cause may be filled by the entity or person that made the delegation or the assigned responsibility may be reassumed or redelegated by such entity or person.

Section 6 - Amendment and Termination

6.1 The Company shall have the right to amend or terminate the Plan in any respect and at any time without notice, and may do so pursuant to a written resolution of the Compensation Committee of the Board.

6.2 The Executive Vice President of Human Resources of the Company (or successor thereto) or the Company's delegate or delegates appointed by such officer in accordance with Section 5.4 of the Plan may, without approval of the Compensation Committee of the Board, adopt the following: (a) minor amendments to the Plan that (i) are necessary or advisable for purposes of compliance with applicable laws and regulations, (ii) relate to administrative practices, or (iii) have an insubstantial financial effect on Plan benefits and expenses; and (b) amendments to the provisions of the Plan that relate to eligibility and Eligible Terminations, provided that each such amendment is deemed by him or her to be necessary or advisable based on a review of the relevant facts and circumstances and is consistent with the purposes of the Plan.

Section 7 - General Provisions

7.1 Eligible Employee's Rights Unsecured and Unfunded. The Plan at all times shall be entirely unfunded. No assets of any Participating Company shall be segregated or earmarked to represent the liability for benefits under the Plan. The right of an Eligible Employee to receive a payment hereunder shall be an unsecured claim against the general assets of the Participating Company that was the employer of such Eligible

11

Employee. All payments under the Plan shall be made from the general assets of the Participating Company that was the most recent employer of the Eligible Employee.

7.2 No Guarantee of Benefits. Nothing contained in the Plan shall constitute a guarantee by a Participating Company or any other person or entity that the assets of the Participating Company will be sufficient to pay any benefit hereunder.

7.3 No Enlargement of Employee Rights. The existence of this Plan or any payment of Severance Pay under the Plan shall not be deemed to constitute a contract of employment between the Company or an Affiliated Company and any Eligible Employee, nor shall it constitute a right to remain in the employ of the Company or an Affiliated Company. Employment with the Company or an Affiliated Company is employment-at-will and either party may terminate the Employee's employment at any time, for any reason, with or without cause or notice.

7.4 Non-Alienation Provision. Except as set forth in Section 4.4 of the Plan, and subject to the provisions of applicable law, no interest of any person or entity in, or right to receive a benefit or distribution under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor may such interest or right to receive a distribution be taken, either voluntarily or involuntarily, for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims for alimony, support, separate maintenance and claims in bankruptcy proceedings.

7.5 Applicable Law. The Plan shall be construed and administered under the laws of the State of New Jersey, except to the extent that such laws are preempted by ERISA.

7.6 Excess Payments. If compensation, years of service or any other relevant fact relating to any person is found to have been misstated, the Plan benefit payable by the Participating Company to an Eligible Employee shall be the Plan benefit that would have been provided on the basis of the correct information. Any excess payments due to such misstatement, or due to any other mistake of fact or law, shall be refunded to the Participating Company or withheld by it from any further amounts otherwise payable under the Plan.

7.7 Impact on Other Benefits. Amounts paid under the Plan shall not be included in an Eligible Employee's compensation for purposes of calculating benefits under any other plan, program or arrangement sponsored by the Company or a Participating Company, unless such plan, program or arrangement expressly provides that amounts paid under the Plan shall be included.

7.8 Usage of Terms and Headings. Words in the masculine gender shall include the feminine and the singular shall include the plural, and vice versa, unless

12

qualified by the context. Any headings are included for ease of reference only, and are not to be construed to alter the terms of the Plan.

7.9 Supersession. The Plan, along with the Prudential Severance Plan, supersedes all statements, practices or policies, if any, with respect to providing severance benefits to any Employee whose employment terminates on or after June 16, 2000.

7.10 Effective Date. The Plan shall be effective as to Eligible Terminations that occur on or after June 16, 2000, and the Plan as amended and restated shall be effective as to Eligible Terminations that occur on or after February 12, 2002.

IN WITNESS WHEREOF, The Prudential Insurance Company of America has caused this restated Plan to be executed and adopted effective as of February 12, 2002.

THE PRUDENTIAL INSURANCE COMPANY
OF AMERICA

Dated: August 9, 2002

By /s/ Sharon Taylor

Sharon Taylor
Senior Vice President, Human Resources

13

Appendix A - Schedule under Section 4.1 of the Prudential Severance Plan for Senior Executives

YEARS OF SERVICE*	NUMBER OF WEEKS
1 OR LESS	6
2	6
3	9

4	12
5	15
6	18
7	21
8	24
9	27
10	30
11	33
12	36
13	39
14	42
15	45
16	48
17	51
18	54
19	57
20	60
21	63
22	66
23	69
24	72
25	75
26 OR MORE	78

*Service is based on adjusted service date as defined in Section 402(e) of the Prudential Retirement Plan, and rounded up to the next full year of service.

Appendix B - Special Rules Regarding Certain Terminations of Employment

Outsourcing of Certain Human Resources Departments or Functions

An Employee's involuntary termination of employment, effective in 2001, 2002 or 2003, from the Human Resources Department or from other departments of a Participating Company as a result of the Exult outsourcing of such Human Resources departments or functions, shall

constitute an Eligible Termination, provided that all other applicable provisions of Section 2.11 have been satisfied (including, but not limited to, Section 2.11(i) through (v) and Section 2.11(A) through (G)) as determined by the Company in its sole discretion.

PRUDENTIAL INSURANCE SUPPLEMENTAL
EXECUTIVE RETIREMENT PLAN

Effective as of March 12, 2002

The Prudential Executive Supplemental Retirement Plan (the "Plan") was established by The Prudential Insurance Company of America (the "Company"), effective as of April 14, 1998, for the purpose of providing reasonable supplemental retirement benefits for certain eligible employees (and their beneficiaries) whose retirement benefits under The Prudential Merged Retirement Plan, the Supplemental Plan and such other plans or arrangements sponsored by the Company are, in the opinion of the Board of Directors of the Company, inadequate. Effective as of March 12, 2002, subject to regulatory approval, the Plan was renamed to the Prudential Insurance Supplemental Executive Retirement Plan and restated with amendments. The Plan provides "Participants" (and their beneficiaries) with one or more of the following categories of benefits: (1) Mid-career Hire Benefits (as set forth in Article II); and (2) Early Retirement Benefits (as set forth in Article III).

The Plan is intended to be, and shall be administered as, an unfunded plan maintained for the purpose of providing deferred compensation for a select group of management or highly compensated employees within the meaning of Title I of ERISA (as defined below). The Plan is also intended to comply with the provisions of New Jersey Statutes Annotated (S) 17B:18-52. A separate, similar plan is being adopted by Prudential Financial, Inc. to cover employees not regulated by New Jersey Statutes (S) 17B:18-52.

ARTICLE I

DEFINITIONS

The following terms shall have the meanings hereinafter set forth. Other terms that are capitalized in the Plan shall be defined in the same manner as they are defined in the Retirement Plan.

- 1.1 "Account Based Plan" means a career average pension plan where benefits are recorded and updated each plan year as an account or lump sum equivalent, such as a cash balance pension plan or retirement equity pension plan arrangement.
- 1.2 "Board of Directors" means the Board of Directors of the Company.
- 1.3 "Code" means the Internal Revenue Code of 1986, as amended.
- 1.4 "Committee" means the Committee that has been appointed by the Compensation Committee pursuant to Section 5.1 of the Plan.
- 1.5 "Compensation Committee" means the Compensation Committee of the Board of Directors, as defined by the Company's by-laws.
- 1.6 "Company" means The Prudential Insurance Company of America. When referring to Company employees or officers, it also means life insurance companies controlled by the Company that are regulated under section 17B:18-52 of New Jersey Statutes.
- 1.7 "Controlled Group" means the Company and (i) each corporation which is a member of a controlled group of corporations (within the meaning of Section 414(b) of the Code) which includes the Company, (ii) each trade or business (whether or not incorporated) which is under common control with the Company (within the meaning of Section 414(c) of the Code), (iii) each organization included in the same affiliated service group (within the meaning of Section 414(m) of the Code) as the Company, and (iv) each other entity required to be aggregated with the Company pursuant to regulations promulgated under Section 414(o) of the Code. Any such entity shall be treated as part of the Controlled Group only for the period while it is a member of the controlled group or considered to be in a common control group.
- 1.8 "Early Retirement Benefits" means benefits granted to Participants in accordance with Article III of this Plan.
- 1.9 "Eligibility Date" means the date the Participant is first eligible for a benefit under the terms of Article II.
- 1.10 "Expected Earnings" means base pay at the Hire Date plus annualized target annual incentive bonus. If a Participant first becomes eligible for this Plan after the first year of employment,

Expected Earnings will mean the actual base pay and annual incentive bonus payable for the full calendar year of employment immediately prior to eligibility for the Plan.

- 1.11 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended.
- 1.12 "Mid-career Hire Benefits" means benefits granted to Participants in accordance with Article II of this Plan.
- 1.13 "Hire Date" means the date employment with a member of the Controlled Group starts.
- 1.14 "Participant" means any salaried officer, senior officer, or employee of the Company (including any life insurance companies controlled by the Company which are Participating Affiliates and regulated under section 17B:18-52 of New Jersey Statutes) and their beneficiaries who has been designated as a Participant in the Plan pursuant to the requirements of Articles II or III of this Plan and has been granted an accrued benefit under Article II or Article III of this Plan, but in each case only to the extent such accrued benefits have been granted and have not yet been paid in full to such individuals.
- 1.15 "Plan" means this Prudential Insurance Supplemental Executive Retirement Plan, as amended from time to time.

Page 2 of 18

- 1.16 "Prior Employer" means an employer that is not a member of the Company's Controlled Group with which the person referred to had an employment relationship immediately before a Participant's Hire Date. Prior Employer includes all entities of a group (i) each corporation which is a member of a controlled group of corporations (within the meaning of Section 414(b) of the Code) which includes the employer, (ii) each trade or business (whether or not incorporated) which is under common control with the employer (within the meaning of Section 414(c) of the Code), (iii) each organization included in the same affiliated service group (within the meaning of Section 414(m) of the Code) as the employer, and (iv) each other entity required to be aggregated with the employer pursuant to regulations promulgated under Section 414(o) of the Code. Any such entity shall be treated as part of such group only for the period while it is a member of the controlled group or considered to be in a common control group.
- 1.17 "Prior Employer Plan" means one or more defined benefit pension plans maintained by the Prior Employer, including an unfunded defined benefit plan maintained by the Prior Employer for the purpose of providing deferred compensation to a select group of management or highly compensated employees within the meaning of Title I of ERISA and also including any written individual defined benefit arrangement or agreement agreed to by the Prior Employer.
- 1.18 "Prudential Cash Balance Plan" means the Prudential Cash Balance Pension Plan Document component of The Prudential Merged Retirement Plan, a defined benefit retirement plan maintained by the Company for itself and Participating Affiliates.
- 1.19 "Prudential Traditional Retirement Plan" means the Prudential Traditional Retirement Plan Document component of The Prudential Merged Retirement Plan, a defined benefit retirement plan maintained by the Company for itself and Participating Affiliates.
- 1.20 "Release" means a written release of rights and claims, from a Participant, in favor of the Company, any Controlled Group member, and individuals employed by or formerly employed by the Company and any Controlled Group member, in a form that is satisfactory to, and approved by, the Committee.
- 1.21 "Retirement Plan" means the Prudential Traditional Retirement Plan and the Prudential Cash Balance Plan.
- 1.22 "SERP Service" means service with the Company's Controlled Group plus any service with a Prior Employer. Service with the Company's Controlled Group shall be Credited Service under the Prudential Traditional Retirement Plan as to benefits for Participants under that plan or Cash Balance Service under the Prudential Cash Balance Plan as to benefits for participants under that plan. Service with the Prior Employer will be service credited under the Prior Employer Plans, both qualified and unfunded plans.
- 1.23 "Supplemental Plan" means the Prudential Supplemental Retirement Plan, a non-qualified deferred compensation plan maintained by the

- 1.24 "Termination of Employment" means the voluntary or involuntary termination of employment with all members of the Controlled Group for any reason, including death.

ARTICLE II

MID-CAREER HIRE BENEFITS

2.1 Eligibility. A salaried officer, senior officer, or employee of the Company who: (A) meets requirements (1) through (7) below, and (B) is also designated as eligible for Mid-career Hire Benefits under the Plan in a written resolution either by the Compensation Committee which is subsequently and timely approved by the Board of Directors, or by the Board of Directors (in the case of an employee who is hired at, or becomes otherwise eligible after attaining, a pay grade under the Prudential Compensation Plan of 1 through 3, or an investment professional pay grade of 56A, or the equivalent, or to the extent otherwise required by the by-laws of the Company), thereby becomes a Participant under the Plan and is therefore eligible to accrue Mid-career Hire Benefits under this Article II. No Controlled Group employee who is not a Company employee or a life insurance company controlled by the Company and regulated under section 17B:18-52 of New Jersey Statutes will be eligible. By approval of any designation by the Compensation Committee, or any designation made directly by the Board of Directors, the Board of Directors has determined that the retirement benefits otherwise available to such individuals under the Retirement Plan, the Supplemental Plan and such other plans or arrangements sponsored by the Company are inadequate, and the failure to provide such benefits pursuant to the Plan would compromise the Company's ability to hire and retain such employee.

The requirements are as follows:

- (1) He or she is a participant in the Retirement Plan as of the date of designation of such person as a Participant under Article II of the Plan by the Compensation Committee or Board of Directors, as applicable;
- (2) He or she has a pay grade of 1 through 4 in the Prudential Compensation Plan or investment professional grade of 56A, or the equivalent;
- (3) He or she was actively employed by a Prior Employer immediately prior to being hired by a member of the Controlled Group;
- (4) He or she terminated his or her employment with such Prior Employer in order to become an employee within the Controlled Group;
- (5) As a result of such termination of employment with the Prior Employer, he or she either (A) forfeits prior benefit accruals, or (B) loses the future benefit accruals he or she would have earned had he or she remained employed by the Prior Employer, in each case, under a Prior Employer Plan;
- (6) He or she requests in writing, as part of a negotiation with the Company regarding the written terms of his or her employment by the Company, that the Company agree to

provide additional retirement benefits in recognition of the loss of such Prior Employer Plan benefit accruals and/or future benefit accruals; and

- (7) He or she meets the terms of this Plan and any other additional or different term or condition that the Compensation Committee (or in the case of an employee who is hired at, or otherwise becomes eligible after attaining, a pay grade of 1 through 3, the Board of Directors) determines, in its sole discretion, should be satisfied as a condition precedent or a condition subsequent to the receipt of Mid-career Hire Benefits accrued under this Article II, including, but not limited to, signing a Release; provided, that any additional or different term or condition is set forth in the written resolution designating the employee as eligible to accrue Mid-career Hire Benefits under the Plan.

2.2 Amount--Prudential Traditional Retirement Plan Participant. Except as otherwise provided in section 2.4, below, the amount of the Mid-career Hire Benefits for a Participant in the Prudential Traditional Retirement Plan shall be an amount equal to the excess, if any, of (a) over (b) below:

- (a) Participant's hypothetical accrued retirement benefits (including,

if applicable, early retirement benefits) under the Retirement Plan and Supplemental Plan, calculated using SERP Service and stated as a single life annuity.

- (b) The applicable offset in (1), (2) or (3), below, plus the Participant's benefit under the Retirement Plan and Supplemental Plan.
- (1) If benefits are provided under a Prior Employer Plan as an annuity or an Account Based Plan benefit for which no lump sum is available at or before the date of benefit commencement under this Plan and:
- (A) Benefits under the Prior Employer Plan have commenced at the time the benefit under this plan will commence--the offset is the annuity benefit being paid to the participant from the Prior Employer Plan. The amount of offset will increase or decrease upon, and co-extensive with, any changes in the amount of benefit provided by the Prior Employer Plan that are known at the date of Prudential benefit commencement. If any partial lump sum payment was previously made, an additional offset for that payment will be calculated as if it were a benefit from an Account Based Plan under paragraph (2), below.
- (B) Benefits under the Prior Employer Plan have not commenced at the time the benefit under this plan will commence, but could commence at the participant's election--the offset is the normal form of annuity benefit available to the participant from the Prior Employer Plan, assuming the Prior Employer Plan benefit commenced at the time the benefit under this Plan will commence.

Page 6 of 18

The amount of the offset will increase or decrease upon, and co-extensive with, any expected changes in the amount of benefit provided by the Prior Employer Plan that are known at the date of Prudential benefit commencement.

- (C) Benefits under the Prior Employer Plan cannot commence until after the time the benefit under this plan will commence--the offset is the normal form of annuity benefit available to the participant from the Prior Employer Plan, but applied beginning as of the earliest date that the Prior Employer Plan benefit can commence. The amount of offset will increase or decrease upon, and co-extensive with, any expected changes in the amount of benefit provided by the Prior Employer Plan that are known at the date of Prudential benefit commencement.
- (2) If Prior Employer Plan benefits are provided by an Account Based Plan from which lump sum is available at or before date of benefit commencement from this Plan, the offset is a single life annuity, determined as follows:
- (A) Determine the lump sum payable from the Prior Employer Plan at the age benefits commence under this Plan. If a lump sum has been previously paid, increase the amount paid from the date of payment to benefit commencement date using the Prudential Cash Balance Plan interest crediting rate in effect on the Participant's Termination of Employment (or other determination date).
- (B) Convert the lump sum determined in (A) to a single life annuity using conversion assumptions provided in the Prudential Cash Balance Plan as of the date of the determination.
- (3) If benefits are provided by both an annuity and Account Based Plan from which lump sum is available at or before date of benefit commencement from this Plan, the offset is the sum of the offsets calculated by applying paragraphs (1) and (2), above, separately to each type of benefit.

2.3 Amount--Cash Balance Plan Participant. Except as otherwise provided pursuant to section 2.4 below, the amount of the Mid-career Hire Benefits for a Participant in the Prudential Cash Balance Plan shall be the sum of (i) a deemed Opening Account Balance equal to the excess, if any, of (a) less the offsets in (b), plus (ii) the credits described in (c) below. This sum will be maintained in an account, which may be divided into appropriate sub-accounts.

(a) Participant's hypothetical Opening Account Balance determined as follows:

(1) Expected Earnings;

Page 7 of 18

(2) Multiplied by Participant's initial SERP Basic Credit Rate;

(3) Multiplied by SERP Service as of the Hire Date; and

(4) Multiplied by 2/3.

The SERP Basic Credit Rate is the percentage determined under Exhibit B of the Prudential Cash Balance Plan calculated using SERP Service.

(b) The sum of the applicable offset in (1) or (2) and the amount in (3), below.

(1) Account Based Plan of Prior Employer. If the Prior Employer Plan is an Account Based Plan from which a lump sum is available as of a date at or before the Hire Date, the offset is the lump sum payable from the Prior Employer Plan at the Participant's Hire Date (or, if later, the Eligibility Date). If a lump sum was paid before the Hire Date (or, if later, the Eligibility Date), determine the offset by increasing the amount paid from date of payment to age at the applicable date using Prudential Cash Balance Plan crediting rate in effect on the Hire Date (or, if later, the Eligibility Date).

(2) Annuity or Account Based Plan with no Lump Sum payable. If the Prior Employer Plan is an annuity-type plan or an Account Based Plan from which no lump sum is available at or before the Hire Date (or, if later, the Eligibility Date), the offset is the present value of benefits actually payable at age 65 from the Prior Employer Plan. The present value will be determined using the normal form of benefit under the Prior Employer Plan or, if benefits have commenced, the benefit being paid. Present value will be calculated using the interest crediting rate methodology and mortality assumptions applicable under The Prudential Cash Balance Plan at the date of calculation, but applied as of the Hire Date (or, if later, the Eligibility Date).

(3) Any account balance in the Prudential Cash Balance Plan and Supplemental Plan at the Eligibility Date.

(c) Additional Credits. Additional credits are the sum of the SERP Basic Credit and the Interest Credit.

(1) The SERP Basic Credit is a monthly addition to the Participant's account equal to a Basic Credit calculated under section 3.2 of the Prudential Cash Balance Plan, but using SERP Service, less the Basic Credit provided under the Prudential Cash Balance Plan and Supplemental Plan for that month using normal service crediting rules. These credits will continue during any period of disability, calculated and applied in a manner and for a period similar to section 3.5 of the Prudential Cash Balance Plan.

Page 8 of 18

(2) The Interest Credit is an addition to the account determined under section 3.4 of the Prudential Cash Balance Plan based on this Plan's account value at the beginning of the month.

2.4 The Board of Directors (or if applicable, the Compensation Committee), may, in its sole discretion, specify pursuant to a written resolution that a Participant's Mid-career Hire Benefits under this Article shall be a different amount than the amount as calculated in Section 2.2 or 2.3 above, provided, that such resolution must set forth how such different amount shall be calculated and further provide that such different amount shall be provided to such Participant in lieu of any benefit that may otherwise be payable under Section 2.2 and 2.3.

2.5 The benefit determined under this Plan will be coordinated with any benefits payable under a similar plan for employees of members of the Controlled Group other than the Company, or life insurance companies controlled by the Company which are regulated under section 17B:18-52 of New Jersey Statutes, so that total benefits from all such plans will not be higher than

they would be if all benefits were provided under this Plan.

2.6 No benefit will be payable under this Plan unless the Participant, when asked, supplies all information relating to service with the Prior Employer or benefits under the Prior Employer Plan that the Committee deems necessary to calculate the Participant's benefit.

2.7 Coordination with Retiree Medical Benefits. If a Participant is not eligible as a Retiree under the Medical Benefits provisions of The Prudential Welfare Benefits Plan, or a successor plan (referred to as the "Medical Plan"), the Board may approve an additional Medical Benefit Differential benefit. A Participant will only be eligible for this Medical Benefit Differential provided the Participant would qualify as a Retiree if the Participant's SERP Service under this Article were added to actual service used to determine Retiree eligibility under the Medical Plan. The Medical Benefit Differential will be a payment in an amount calculated by the Committee to equal, after a reasonable allowance for taxes, the difference between (i) the contributions made under the Medical Plan by a similarly situated actual Retiree who separated from service at the same time and (ii) the contribution required for the Participant's continued participation in COBRA continuation coverage or, after exhaustion of COBRA continuation, the Executive Medical Access Plan of The Prudential Welfare Benefits Plan (or its equivalent) for which the Participant is eligible. If the Executive Medical Access Plan is discontinued, the Medical Benefit Differential will continue in the amount of the last contribution amount determined for a Participant prior to that discontinuance. The Committee may also specify a significantly lower, unvarying Medical Benefit Differential (including zero) that will be payable if the Participant is eligible but at any time declines to participate in the Executive Medical Access Plan. Notwithstanding any election under Article IV for the payment of benefits other than as an annuity, the Medical Benefit Differential shall be payable monthly, or on such other periodic basis as the Committee determines is appropriate under the circumstances. The Medical Benefit Differential will terminate when Medical Plan coverage provided to a similarly situated actual Retiree would have terminated.

Page 9 of 18

ARTICLE III

EARLY RETIREMENT BENEFITS

3.1 Eligibility. Any salaried officer, senior officer, or employee of the Company who meets requirements (1) through (5) (or if applicable, requirements (1) through (6)) set forth below thereby becomes a Participant under the Plan and therefore shall be eligible to accrue Early Retirement Benefits under this Article III; provided, however, that the accrual of Early Retirement Benefits under this Article and the payment of Early Retirement Benefits under this Plan shall be conditioned upon the Participant's signing a Release. By the provisions of Section 3.1(5) below, or by such designation pursuant to Section 3.1(4)(c) below, the Board of Directors has determined that the retirement benefits otherwise available to such individuals under the Retirement Plan, the Supplemental Plan and such other plans or arrangements sponsored by the Company would be inadequate absent the provision of such Early Retirement Benefits.

The requirements are as follows:

- (1) He or she is a participant in the Retirement Plan as of the date of designation of such person as a Participant under Article III of the Plan by the Committee, Compensation Committee or Board of Directors, as applicable;
- (2) He or she has reached his or her earliest possible retirement date under the Prudential Traditional Retirement Plan before incurring a Termination of Employment either as a result of (A) attaining the first of the month coincident with or following age 55 with 10 Years of Vesting Service, or (B) attaining age 50 with 20 Years of Continuous Service and meeting all other requirements set forth in Section 502(b) of the Prudential Traditional Retirement Plan (or any successor provision);
- (3) He or she has incurred an involuntary Termination of Employment (other than by death, summary dismissal, or termination for cause) or has been requested by the Company to agree to a Termination of Employment, in each case, while employed at a pay grade under the Prudential Compensation Plan of grade 1 through 6 or an investment professional grade of 56 or 56A, or the equivalents;
- (4) He or she is designated in a written officer's certificate or written resolution as eligible to accrue Early Retirement Benefits under Article III of the Plan by one of the following --

- (a) The Committee, in its sole discretion, in the case of an employee at pay grades 5 or 6 and investment professional grade

56, or their equivalents, or

- (b) The Compensation Committee, in its sole discretion, in the case of an employee at grade 4 or grade 56A or their equivalents, or to the extent required by the by-laws of the Company (to the extent that such by-laws are more restrictive than the terms of this Plan), or

Page 10 of 18

- (c) The Board of Directors, in its sole discretion in the case of an employee at grades 1 through 3, or their equivalent, or to the extent required by the by-laws of the Company (to the extent that such by-laws are more restrictive than the terms of this Plan);

- (5) Such designation made in Section 3.1(4)(a) and (b) above is subsequently and timely approved by the Board of Directors; and
- (6) He or she meets the terms of this Plan and any other different or additional term or condition that the Committee (or if applicable, the Compensation Committee or the Board of Directors) determines, in its sole discretion, should be satisfied as a condition precedent or a condition subsequent to the receipt of Early Retirement Benefits under this Article III; provided, that any different or additional term or condition is set forth in the written officer's certificate or resolution designating the employee as eligible to accrue Early Retirement Benefits under the Plan.

3.2 Amount. (a) Except as otherwise provided pursuant to paragraph (b) below, the amount of a Participant's Early Retirement Benefits shall be an amount equal to the excess, if any, of (i) less (ii) below:

- (i) Participant's accrued retirement benefit under the Prudential Traditional Retirement Plan, and related accrued benefits under Articles II, III and IV of the Supplemental Plan, multiplied by an adjustment factor of 1.00, in the case of a Participant who retires under the Retirement Plan before the Participant's Normal Retirement Date;

LESS

- (ii) Participant's aggregate (A) accrued early retirement benefits under Article XI of the Prudential Traditional Retirement Plan, and (B) related benefits under Articles II, III, and IV of the Supplemental Plan, if any.

(b) The Committee (or if applicable, the Compensation Committee or the Board of Directors), may, in its sole discretion, specify pursuant to a written officer's certificate or resolution, as the case may be, that a Participant's Early Retirement Benefits under this Article III shall be a lesser amount than the amount set forth in Section 3.2 (a) above, provided, that such certificate or resolution must set forth how such lesser amount shall be calculated and further provide that such lesser amount shall be provided to such Participant in lieu of any benefit that may otherwise be payable under this Section 3.2.

3.3 Cash Balance Participant. In the event a Participant is covered under the Prudential Cash Balance Plan but elects an annuity that includes a Grandfathered Minimum Benefit (calculated under the Prudential Traditional Retirement Plan formula), the Participant's

Page 11 of 18

benefit relating to accruals prior to January 1, 2002 will be treated for purposes of applying section 3.2, above, as a benefit under the Prudential Traditional Retirement Plan.

3.4 Coordination with Mid-career Hire Benefits. For participants granted eligibility for benefits under Article II of this plan, the following apply for purposes of this Article III:

(a) Vesting Service and Continuous Service under section 3.1(2) shall be calculated to include all SERP Service.

(b) For calculating the amount under section 3.2, the following subparagraphs will be substituted for subparagraphs (i) and (ii) of that section:

- (i) Participant's hypothetical accrued retirement benefits determined under section 2.2(a) without reduction for commencement before the Participant's Normal Retirement Date;

- (ii) Participant's hypothetical accrued retirement benefits determined under section 2.2(a).

ARTICLE IV

PAYMENT OF BENEFITS

4.1 Vesting. A benefit described in Article II will be payable under this Plan only if the Participant, at the time of Termination of Employment with all members of the Controlled Group has five years of service with the Controlled Group, or the Company incurs a change of ownership (within the meaning of Internal Revenue Code section 280G(b)(2)(A)(i)). Years of service will be years of Vesting Service determined under the portion of the Retirement Plan benefiting the Participant.

4.2 Time and Form of Payment. (a) If a Participant has accrued any benefits described in Article II or Article III of the Plan, such Participant (or his or her beneficiary) shall begin receiving Plan payments on the date benefits commence under the Supplemental Plan. Benefits payable under the Plan shall be paid to the Participant (and his or her beneficiary) in the same form of benefit and at the same time as the benefit payable to such Participant (and beneficiary) under the Supplemental Plan (including any lump sum form of payment under the Supplemental Plan). All optional forms will be actuarially equivalent as of the date of commencement based upon the interest and actuarial assumptions, or will be adjusted using appropriate reduction factors, as prescribed under the Retirement Plan and Supplemental Plan at the date of commencement.

(b) If a Participant has accrued any benefits described in Article II, but is not eligible to receive benefits under the Retirement Plan or the Supplemental Plan, such Participant shall be treated as if he or she had completed five years of vesting service under the Retirement Plan and the Supplemental Plan solely for purposes of determining the time and form of Plan payments under this Plan.

(c) If a Participant has accrued any benefits described in Article II or Article III of the Plan, but dies before payment of Plan benefits commences under the Plan, benefits shall be payable at the same time, in the same form and to the same beneficiary as provided under the Supplemental Plan.

4.3 Release. Any benefits accrued under this Plan shall be null and void and not be payable upon a Participant's failure to give, or subsequent revocation of, a Release. Any breach by a Participant of a Release shall give the Company the right to the return of such benefits, as well as the reimbursement by the Participant of any attorney fees and costs expended by the Company in enforcing such right of return.

ARTICLE V

ADMINISTRATION OF THE PLAN

5.1 Administration of the Plan. The Compensation Committee shall appoint a Committee to administer the Plan, which shall be comprised of at least three duly authorized officers of the Company. The Committee shall maintain such procedures and records as will enable the Committee (or the Compensation Committee or the Board of Directors, as the case may be) to determine the Participants and their beneficiaries who are entitled to receive benefits under the Plan and the amounts thereof.

5.2 General Powers of Administration. (a) The Committee shall have the exclusive right, power, and authority to interpret, in its sole discretion, any and all of the provisions of the Plan; and to consider and decide conclusively any questions (whether of fact or otherwise) arising in connection with the administration of the Plan or any claim for benefits arising under the Plan; provided, however, that such right, power and authority shall be exercised by the Compensation Committee or the Board of Directors to the extent otherwise required by the Plan or the Company's by-laws (to the extent that such by-laws are more restrictive than the terms of this Plan). Any decision or action of the Committee (or the Compensation Committee or the Board of Directors, as the case may be) shall be conclusive and binding on the Company and the Participants.

(b) Provisions set forth in the Retirement Plan with respect to claims and appeals procedures, and immunities of the Administrative Committee (as defined in the Retirement Plan), shall also be applicable with respect to the Plan and the Committee, except that all claim and appeals decisions shall be made by the Committee or, as provided in subsection (a) for general powers of administration, by the Compensation Committee or the Board of Directors.

ARTICLE VI

AMENDMENT AND TERMINATION

6.1 Amendment or Termination of the Plan. The Company reserves the right to amend or terminate the Plan in any respect and at any time; provided, however, that the following conditions with respect to such amendment or termination must be satisfied for such amendment or termination to be binding and in effect:

- (1) Such amendment or termination must be made pursuant to a written resolution of the Committee (or the Compensation Committee or the Board of Directors to the extent otherwise required by the Plan or the Company's by-laws (to the extent that such by-laws are more restrictive than the terms of this Plan));
- (2) Such amendment or termination resolution may not adversely affect the rights of any Participant or beneficiary to receive benefits earned and accrued under the Plan prior to such amendment or termination, nor may the terms of any such amendment or termination be interpreted to provide that any benefits payable hereunder that are subject to a Release or other term or condition shall not continue to be subject to the terms of such Release, term or condition unless the terms of such amendment or termination resolution so specify;
- (3) Any such amendment resolution that would (A) remove any of the eligibility criteria for Mid-career Hire Benefits (as set forth in Section 2.1 of the Plan) or Early Retirement Benefits (as set forth in Section 3.1 of the Plan), or (B) alter the formulae used, and thereby increase the amount of, Mid-career Hire Benefits (as set forth in Section 2.2 and 2.3 of the Plan) or Early Retirement Benefits (as set forth in Section 3.2(a) of the Plan), must be submitted to the Compensation Committee (and thereafter submitted to the Board of Directors) and the New Jersey Department of Banking and Insurance for approval (and must receive such approvals) before such amendment becomes effective.

ARTICLE VII

GENERAL PROVISIONS

7.1 Participant's Rights Unsecured and Unfunded. The Plan at all times shall be entirely unfunded. No assets of the Company shall be required to be segregated or earmarked to represent the liability for accrued benefits under the Plan. The right of a Participant (or his or her beneficiary) to receive a payment hereunder shall be an unsecured claim against the general assets of the Company. All payments under the Plan shall be made from the general funds of the Company, unless satisfied by other means.

7.2 No Guarantee of Benefits. Nothing contained in the Plan shall constitute a guaranty by any member of the Controlled Group or any other person or entity that the assets of the Company will be sufficient to pay any benefit hereunder.

7.3 No Enlargement of Employee Rights. Participation in the Plan shall not be construed to give any Participant the right to be retained in the service of any member of the Controlled Group.

7.4 Non-Alienation Provision. No interest of any person or entity in, or right to receive a benefit or distribution under, the Plan shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind; nor may such interest or right to receive a distribution be taken, either voluntarily or involuntarily for the satisfaction of the debts of, or other obligations or claims against, such person or entity, including claims for alimony, support, separate maintenance and claims in bankruptcy proceedings.

7.5 Applicable Law. The Plan shall be construed and administered under the laws of the State of New Jersey, except conflict of laws provisions or to the extent that such laws are preempted by ERISA.

7.6 Taxes. To the extent required by law, amounts accrued under the Plan shall be subject to federal social security and unemployment taxes during the year the services giving rise to such amounts were performed (or, if later, when the amounts are both determinable and not subject to a substantial risk of forfeiture). The Company shall withhold from any payments made pursuant to the Plan such amounts as may be required by federal, state or local law.

7.7 Excess Payments. If the compensation, years of service, age, or any other relevant fact relating to any person is found to have been misstated, the Plan benefit payable by the Company to a Participant or beneficiary shall be the Plan benefit that would have been provided on the basis of the correct information. Any excess payments due to such misstatement, or due to any other mistake of fact or law, shall be refunded to the Company or withheld by it from any further amounts otherwise payable under the Plan.

7.8 No Impact on Other Benefits. Amounts accrued under the Plan shall not be included in a Participant's compensation for purposes of calculating benefits under any other plan, program or arrangement sponsored by the any member of the Controlled Group.

7.9 Data. Each Participant or beneficiary shall furnish the Committee with all proofs of dates of birth and death and proofs of continued existence necessary for the administration of the Plan, and the Company shall not be liable for the fulfillment of any Plan benefits in any way dependent upon such information unless and until the same shall have been received by the Committee in form satisfactory to it.

7.10 Incapacity of Recipient. If a Participant or other beneficiary entitled to a distribution under the Plan is living under guardianship or conservatorship, distributions payable under the terms of the Plan to such Participant or beneficiary shall be paid to his or her appointed guardian or conservator and such payment shall be a complete discharge of any liability of the Company under the Plan.

7.11 Usage of Terms and Headings. Words in the masculine gender shall include the feminine and the singular shall include the plural, and vice versa, unless qualified by the context. Any headings are included for ease of reference only, and are not to be construed to alter the terms of the Plan.

The following officer of the Company attests that this is a true copy of the Plan as adopted by the Board of Directors May 14, 2002.

May 14, 2002	/s/ Victor Y. Sim
Date	----- Victor Y. Sim Vice President of Total Compensation

Subs List as of June 30, 2002

<TABLE>
<CAPTION>

Subsidiary Jurisdiction of Incorporation	Doing Business As
=====	=====
<S>	<C>
745 Property Investments Massachusetts, US	
-----	-----
Alternative Fuels I, LLC Delaware, US	
-----	-----
ARL Holdings, Inc Delaware, US	
-----	-----
Asian Infrastructure Mezzanine Capital Fund Islands	Cayman
-----	-----
Asset Disposition Trust Jersey, US	New
-----	-----
Bache and Co. (Lebanon) S.A.L. Lebanon	
-----	-----
Bache Insurance Agency Incorporated Massachusetts, US	
-----	-----
Bache Insurance Agency of Alabama, Inc. Alabama, US	
-----	-----
Bache, S.A. de C.V. Mexico	
-----	-----
Big Yellow Holdings Limited Bermuda	
-----	-----
Braeloch Holdings Inc. Delaware, US	
-----	-----
Braeloch Successor Corporation Delaware, US	
-----	-----
Bree Investments Limited Kong	Hong
-----	-----
Brighton Claims Services, LLC Delaware, US	
-----	-----
Capital Agricultural Property Services, Inc. Delaware, US	
-----	-----
CB Investment, LLC Delaware, US	
-----	-----
China Homes (Teda) Property Consulting Services, Ltd. China	
-----	-----

China Homes Limited Bermuda	
Circle Housing Corporation Delaware, US	Circle Housing Corporation of Texas
Circle Nominees Limited England, UK	
Clivwell Securities Limited England, UK	
COLICO, Inc. Delaware, US	
Corcarr Nominees Pty Limited Australia	Victoria,
Corporate America Realty, Inc. Jersey, US	New
Corporate Relocation France France	
Country Road Communications, Inc. Delaware, US	
Dryden Capital Management Limited England, UK	
Dryden Finance II, LLC Delaware, US	
Dryden Finance, Inc. Delaware, US	
Dryden Holdings Corporation Delaware, US	
EPP - LLC Jersey, US	New
EPP GP England, UK	
EuroInvest (General Partner) Limited England, UK	
Flor-Ag Corporation Florida, US	
FountainGlen Properties, LLC Delaware, US	
Gateway Holdings, Inc. Jersey, US	New
Gateway Holdings, S. A. Luxembourg	
Gateway South Urban Renewal Association Jersey, US	New
Gibraltar Corretora de Seguras Ltda.	

Brazil	
Gibraltar Hong Kong Holdings Limited Partnership Kong	Hong Kong
Gibraltar Properties, Inc. Delaware, US	
GRA (Bermuda) GP Limited Bermuda	
GRA (Bermuda) Limited Bermuda	
GRA (Singapore) Pte Ltd Singapore	
Graham Depository Company II Delaware, US	
Graham Energy, Ltd. Louisiana, US	
Graham Resources, Inc. Delaware, US	
HHV Holdings, LLC Nevada, US	
Hochman & Baker Insurance Services, Inc. Illinois, US	
Hochman & Baker Investment Advisory Services, Inc. Illinois, US	
Hochman & Baker Securities, Inc. Illinois, US	
Hochman & Baker, Inc. Illinois, US	
Human Resource Finance Company, Inc. Delaware, US	
Industrial Properties (General Partner) II Limited England, UK	
Industrial Properties (General Partner) Limited England, UK	
Jennison Associates LLC Delaware, US	
Karen Deane Relocation Limited England, UK	
Lapine Development Corporation California, US	
Lapine Holding Company Delaware, US	
Lapine Technology Corporation California, US	

</TABLE>

1

Subs List as of June 30, 2002

<TABLE>

<CAPTION>

Subsidiary
Jurisdiction of

Doing Business As

Incorporation

<S>

<C>

<C>

Luddite Associates, GP
Massachusetts, US

Merastar Corporation
Maryland, US

Merastar Insurance Company
Tennessee, US

ML/MSB Acquisition, Inc.
Delaware, US

Northern Retail Properties (General Partner) Limited
England, UK

P-B Finance Ltd.
Islands

Cayman

PB Financial Services, Inc.
Delaware, US

PB Financial Services-Metals Division
Prudential-Bache Financial Services-Metals

Division

PBI Fund Managers Limited
England, UK

PBI Group Holdings Limited
England, UK

PBI Holdings Ltd.
England, UK

PBI Limited
England, UK

PBI Management Limited
England, UK

PBIB Holdings Limited
England, UK

PBT Home Equity Holdings, Inc.
Georgia, US

PBT Mortgage Corporation
Georgia, US

PCG Finance Company I, LLC
Delaware, US

----- PCG Finance Company II, LLC Delaware, US -----		
----- PCM International, Inc. Jersey, US -----	PCM International, Inc.	New
----- Perseverance Associates, LP California, US -----		
----- PGA Asian Holdings Ltd. Bermuda -----		
----- PGA Asian Retail Limited Bermuda -----		
----- PGA European Holdings, Inc. Delaware, US -----		
----- PGA European Limited Bermuda -----		
----- PGA FountainGlen, LLC Delaware, US -----		
----- PGA Kilimanjaro I Luxembourg -----		
----- PGA Kilimanjaro II Luxembourg -----		
----- PGA Kilimanjaro Limited Bermuda -----		
----- PGA Safeguard I, LLC Delaware, US -----		
----- PGAM Finance Corporation Delaware, US -----		
----- PGLH Delaware, Inc. Delaware, US -----		
----- PGR Advisors I, Inc. Delaware, US -----		
----- PGR Advisors, Inc. Delaware, US -----		
----- PHMC Services Corporation Jersey, US -----		New
----- Phoenix CDO II, Ltd. Delaware, US -----		
----- PIC Holdings Limited England, UK -----		
----- PIC Realty Canada Limited Federal, Canada -----	PIC Realty Canada Limited	Canada
----- PIC Realty Corporation Delaware, US ----- -----		

PIFM Holdco, Inc. Delaware, US	
PIM Global Financial Strategies, Inc. Jersey, US	New
PIM Warehouse, Inc. Delaware, US	
PIMS Holding, LLC Delaware, US	
PMCC Holding Company Jersey, US	New
PMCC Houston Apartments, LLC Delaware, US	
PMLS Limited Partnership Delaware, US	
POK Securitization Specialty Company, Ltd. Korea	
PREI International, Inc. Delaware, US	
Premier Select Ltd.	BVI
PRICOA Capital Group Limited England, UK	
PRICOA Capital Management Limited England, UK	
Pricoa China (Residential) Limited Bermuda	
Pricoa China (Warehouse) Limited Bermuda	
PRICOA Funding Limited	UK
PRICOA GA Paterson, Ltd Bermuda	
PRICOA General Partner II (Co-Investment) Limited England, UK	
PRICOA General Partner II Limited Scotland, UK	
PRICOA General Partner Limited Scotland, UK	
PRICOA Investment Company	UK
PRICOA Management Partner Limited England, UK	
PRICOA Mezzanine Investment Co. England, UK	

PRICOA P.I.M. (Regulated) Limited	
England, UK	
PRICOA PanEuropean Investment Limited	UK
PRICOA Private Capital Partners ID LP	UK

Subs List as of June 30, 2002

Subsidiary Jurisdiction of Incorporation	Doing Business As
PRICOA Private Capital Partners IID LP	UK
PRICOA Property Asset Management Limited	
England, UK	
PRICOA Property Investment Management Limited	
UK	
PRICOA Property PLC	
England, UK	
PRICOA Property Private Equity Limited	
England, UK	
PRICOA Relocation Europe Limited	England &
Wales	
PRICOA Relocation Holdings Limited	
England, UK	
Pricoa Relocation Management Limited	UK
PRICOA Scottish General Partner II, LP	
Scotland, UK	
PRICOA Scottish General Partner LP	
Scotland, UK	
Pru 101 Market, LLC	
Delaware, US	
Pru 101 Wood, LLC	
Delaware, US	
Prubache Nominees Pty Limited	Victoria,
Australia	
PRUCO Life Insurance Company	
Arizona, US	
PRUCO Life Insurance Company of New Jersey	PRUCO Life Insurance Company of New Jersey
Jersey, US	New

----- Pruco Securities Corporation Jersey, US -----	Prudential Preferred Advisors	New
----- PRUCO, Inc. Jersey, US -----		New
----- Prudential Agricultural Credit, Inc. Tennessee, US -----		
----- Prudential Apolo, Operadora de Sociedades de Inversion S.A. de C.V. Mexico -----		
----- Prudential Asset Management Holding Company Jersey, US -----		New
----- Prudential Asset Management Japan, Inc. Japan -----		
----- Prudential Asset Resources, Inc. Delaware, US -----		
----- Prudential Asset, LLC Delaware, US -----		
----- Prudential Bradesco-Seguros S.A. Brazil -----		
----- Prudential Brazilian Capital Fund Brazil -----		
----- Prudential Capital & Investment Services, LLC Delaware, US -----		
----- Prudential Capital Group, L.P. Delaware, US -----		
----- Prudential Carbon Mesa, Inc. Delaware, US -----		
----- Prudential Commercial Insurance Company Delaware, US -----		
----- Prudential Community Interaction Consulting, Inc. Delaware, US -----	Prudential Community Interaction Consulting Prudential Community Interaction Consulting (renewal)	
----- Prudential Direct Distributors, Inc. Jersey, US -----		New
----- Prudential Direct Insurance Agency of Alabama, Inc. Alabama, US -----		
----- Prudential Direct Insurance Agency of Massachusetts, Inc Massachusetts, US -----		
----- Prudential Direct Insurance Agency of New Mexico, Inc. Mexico -----		New
----- Prudential Direct Insurance Agency of Ohio, Inc Ohio, US -----		
----- Prudential Direct Insurance Agency of Wyoming, Inc. -----		

Wyoming, US		
Prudential Direct, Inc.		
Georgia, US		
Prudential Equity Investors, Inc.		New
York, US		
Prudential Financial Advisors Securities, Company, Ltd.		
Japan		
Prudential Financial Capital Trust I		
Delaware, US		
Prudential Financial Securities Investment Trust Enterprise		
Taiwan		
Prudential Funding, LLC		New
Jersey, US		
Prudential General Agency of Ohio, Inc.		
Ohio, US		
Prudential General Insurance Agency of Florida, Inc.		
Florida, US		
Prudential General Insurance Agency of Kentucky, Inc.		
Kentucky, US		
Prudential General Insurance Agency of Massachusetts, Inc.		
Massachusetts, US		
Prudential General Insurance Agency of Mississippi, Inc.		
Mississippi, US		
Prudential General Insurance Agency of Nevada, Inc.		
Nevada, US		
Prudential General Insurance Agency of New Mexico, Inc.		New
Mexico, US		
Prudential General Insurance Agency of Wyoming, Inc.		
Wyoming, US		
Prudential General Insurance Company		
Delaware, US		
Prudential Global Funding, Inc		
Delaware, US		
Prudential Holdings of Japan, Inc.		
Japan		
Prudential Holdings, LLC		New
Jersey, US		
Prudential Home Building Investment Advisers, L.P.		New
Jersey, US		
Prudential Home Building Investors, Inc.	Prudential Home Building Investors, Inc.	New
Jersey, US		
Prudential Homes Corporation	Prudential Relocation	New
York, US		

Prudential Human Resources Management Company, Inc
Delaware, US

Prudential Huntoon Paige Associates, Ltd.
Delaware, US

Prudential IBH Holdco, Inc.
Delaware, US

</TABLE>

3

Subs List as of June 30, 2002

<TABLE>
<CAPTION>

Subsidiary
Jurisdiction of

Doing Business As

Incorporation
=====

<S>

<C>

Prudential Insurance Service Agency
Prudential Home Choice

<C>

Prudential Insurance Brokerage, Inc.
Arizona, US

Prudential Service Insurance Agency

Prudential International Insurance Holdings, Ltd.
Delaware, US

Prudential International Insurance Service Company, L.L.C.
Delaware, US

Prudential International Investments Corporation
Delaware, US

Prudential International Investments Financial, LLC
Delaware, US

Prudential International Investments Services Corporation
Delaware, US

Prudential Investment Management (Japan), Inc.
Delaware, US

Prudential Investment Management Services LLC
Delaware, US

Prudential Investment Management, Inc.
Jersey, US

PRG Prudential Realty Group
Prudential Personal Investment Counsel
Prudential Real Estate Securities Investors

New

The Prudential Capital Markets Group
The Prudential Realty Group
The Prudential Realty Group, Inc.

Prudential Investments Japan Co.
Japan

Prudential Investments LLC
York, US

New

Prudential Japan Holdings Inc.
Delaware, US

----- Prudential Latin American Investments, Ltd. Islands	Cayman
----- Prudential Life Insurance Company of Taiwan Inc. Taiwan	
----- Prudential MC Asset Holding Company, LLC Delaware, US	
----- Prudential Mexico, LLC Delaware, US	
----- Prudential Mortgage Asset Corporation II Delaware, US	
----- Prudential Mortgage Capital Asset Holding Company, LLC Delaware, US	
----- Prudential Mortgage Capital Company I, LLC Delaware, US	
----- Prudential Mortgage Capital Company II, LLC Delaware, US	
----- Prudential Mortgage Capital Company, Inc. Delaware, US	
----- Prudential Mortgage Capital Company, LLC Delaware, US	
----- Prudential Mortgage Capital Funding, LLC Delaware, US	
----- Prudential Mortgage Capital Holdings Corporation Delaware, US	
----- Prudential Multi Family Asset Holding Company I, LLC Delaware, US	
----- Prudential Multifamily Mortgage, Inc. Delaware, US	
----- Prudential Mutual Fund Distributors, Inc. Delaware, US	
----- Prudential Mutual Fund Services LLC York, US	New
----- Prudential P&C Holdings, Inc. Delaware, US	
----- Prudential Preferred Income Partners, LLC Delaware, US	
----- Prudential Private Placement Investors L.P. Delaware, US	
----- Prudential Private Placement Investors, Inc. Jersey, US	New
----- Prudential Property and Casualty General Agency, Inc. Texas, US	

Prudential Property and Casualty Insurance Company Indiana, US	
Prudential Real Estate Affiliates of Canada Ltd. Canada	Ontario,
Prudential Realty Securities II, Inc. Delaware, US	
Prudential Realty Securities, Inc Delaware, US	
Prudential Referral Services, Inc. Delaware, US	
Prudential Relocation Canada, Ltd. Federal, Canada	Canada
Prudential Relocation of Texas, Inc. US	Texas,
Prudential Relocation, Inc. Colorado	Prudential Relocation
Prudential Relocation, Ltd. Ontario, Ca	
Prudential Relocation, S. de R.L. de C.V. Mexico	
Prudential Residential Services, Limited Partnership Delaware, US	Moran, Stahl & Boyer Moran, Stahl & Boyer (in most CA counties) Moran, Stahl & Boyer Limited Partnership Moran, Stahl & Boyer, Limited Partnership Prudential Relocation Prudential Relocation (filed in Orange County) Prudential Relocation Intercultural Services, L'mtd P'Ship Prudential Relocation Limited Partnership Prudential Relocation, Limited Partnership Prudential Resources Management Prudential Resources Management, Limited Partnership

</TABLE>

Subs List as of June 30, 2002

<TABLE> <CAPTION>		
Subsidiary Jurisdiction of Incorporation	Doing Business As	
<S> Prudential Resources Management Asia Limited Kong	<C>	<C> Hong
Prudential Securities (Argentina) Incorporated Delaware, US		

Prudential Securities (Brasil) Ltda. Brazil	
Prudential Securities (Chile) Inc. Delaware, US	
Prudential Securities (Japan) Limited Delaware, US	
Prudential Securities (Montevideo) Usuaría de Zona Franca S.A. Uruguay	
Prudential Securities (Taiwan) Co., Ltd. Taiwan	
Prudential Securities (Uruguay) S.A. Uruguay	
Prudential Securities CMO Issuer Inc. Delaware, US	
Prudential Securities Credit Corp., LLC Delaware, US	Prudential Securities Realty Funding
Prudential Securities Foundation York, US	New
Prudential Securities Futures Management Inc. Delaware, US	
Prudential Securities Group Inc. Delaware, US	
Prudential Securities Incorporated Delaware, US	
Prudential Securities Insurance Agency of Puerto Rico, Inc. Rico, US	Puerto
Prudential Securities Investing Consulting (Taiwan) Co., Ltd. Taiwan	
Prudential Securities Municipal Derivatives, Inc. Delaware, US	
Prudential Securities Secured Financing Corporation Delaware, US	
Prudential Securities Structured Assets, Inc. Delaware, US	
Prudential Seguros, S.A. Argentina	
Prudential Select Holdings, Inc. Delaware, US	
Prudential Select Life Insurance Company of America Minnesota, US	
Prudential Texas Residential Services Corporation Texas, US	
Prudential Timber Investments, Inc.	New

Jersey, US	
Prudential Trust Company	
Pennsylvania, US	
Prudential-Bache Capital Funding BV	
Netherlands	
Prudential-Bache Corporate Directors Services, Inc.	Cayman
Islands	
Prudential-Bache Corporate Trustee Services, Inc.	Cayman
Islands	
Prudential-Bache Energy Corp.	
Delaware, US	
Prudential-Bache Energy Production Inc.	
Delaware, US	
Prudential-Bache Finance (Hong Kong) Limited	Hong
Kong	
Prudential-Bache Funding Limited	
England, UK	
Prudential-Bache Futures (Hong Kong) Limited	Hong
Kong	
Prudential-Bache Futures Asia Pacific Ltd.	
Delaware, US	
Prudential-Bache Global Markets Inc.	
Delaware, US	
Prudential-Bache Holdings Limited	
England, UK	
Prudential-Bache International (Hong Kong) Limited	Hong
Kong	
Prudential-Bache International (UK) Limited	
England, UK	
Prudential-Bache International Bank Limited	UK
Prudential-Bache International Banking Corporation	New
York, US	
Prudential-Bache International Limited	UK
Prudential-Bache International Trust Company (Cayman)	Cayman
Islands	
Prudential-Bache Leasing Inc.	
Delaware, US	
Prudential-Bache Limited	
England, UK	
Prudential-Bache Management GmbH	
Germany	

Prudential-Bache Metals GmbH & Co. KG Germany	
Prudential-Bache Nominees (Hong Kong) Limited Kong	Hong
Prudential-Bache Nominees Limited England, UK	
Prudential-Bache Overseas Funding Limited England, UK	
Prudential-Bache Program Services Inc. York, US	New
Prudential-Bache Properties, Inc. Delaware, US	VMS National Hotel
Prudential-Bache Securities (Australia) Limited Australia	Victoria,
Prudential-Bache Securities (Germany) Inc. Delaware, US	
Prudential-Bache Securities (Holland) Inc. Delaware, US	
Prudential-Bache Securities (Hong Kong) Limited Kong	Hong
Prudential-Bache Securities (Switzerland) Inc. Delaware, US	
Prudential-Bache Securities (U.K.) Inc.	UK
Prudential-Bache Securities Agencia de Valores S.A. Spain	
Prudential-Bache Singapore Holdings Ltd. York, US	New
Prudential-Bache Securities Asia Pacific Ltd. Singapore	
Prudential-Bache Trade Services Inc. Delaware, US	
Prudential-Bache Transfer Agent Services, Inc. York, US	New
Prumerica Asia Fund Management (Singapore) Limited Singapore	
Prumerica Asia Fund Management Limited Kong	Hong

</TABLE>

----- Subsidiary Jurisdiction of Incorporation =====	Doing Business As
<S> Prumerica Asia Management Services Limited Kong	<C> Hong
----- Prumerica Private Bank (Switzerland) SA Switzerland	
----- Prumerica Financial Asia Limited Islands (British)	Virgin
----- Prumerica Global Asset Management Company S.A. Luxembourg	
----- Prumerica International Real Estate and Relocation Services, Limited Bermuda	
----- Prumerica Investment Management Company S.A. Luxembourg	
----- Prumerica Life S.p.A Italy	
----- Prumerica Marketing S.r.l. Italy	
----- Prumerica Private Bank (Switzerland) SA Switzerland	
----- Prumerica Systems Ireland Limited Ireland	
----- Prumerica Towarzystwo Ubezpieczen na Zycie Spolka Akcyjna Poland	
----- PruServicos Participacoes S.A. Brazil	
----- PSI Partners Inc. Nevada, US	
----- PTC Services, Inc. Jersey, US	New
----- Quick Serve Auto Agency US	Texas,
----- Residential Information Services Limited Partnership Delaware, US	
----- Residential Information Services, Inc. Delaware, US	
----- Residential Services Corporation of America Delaware, US	
----- Safeguard Storage Properties, LLC Delaware, US	

SCL Holdings China		
Seaport Futures Management, Inc. Delaware, US		
Securitized Asset Sales, Inc. Delaware, US		
SMP Holdings, Inc Delaware, US		
South Downs Properties (General Partner) Ltd. England, UK		
South Downs Trading Properties (General Partner) Ltd. England, UK		
SouthStreet Software, L.L.C. Delaware, US		
SVIIT Holdings, Inc. Delaware, US		
The Gibraltar Life Insurance Company, Ltd. Japan		
The Prudential Asset Management Company, Inc. Jersey, US	Prudential Defined Contribution Services	New
The Prudential Assigned Settlement Services Corp. Jersey, US		New
The Prudential Bank and Trust Company Georgia, US	The Prudential Trust Company	
The Prudential Commercial Insurance Company of Delaware Delaware, US		
The Prudential Commercial Insurance Company of New Jersey Jersey, US		New
The Prudential General Insurance Company of New Jersey Jersey, US		New
The Prudential Home Mortgage Company, Inc. Jersey, US		New
The Prudential Home Mortgage Securities Company, Inc. Delaware, US		
The Prudential Insurance Company of America Jersey, US		New
The Prudential Life Insurance Company of Korea, Ltd. Korea		
The Prudential Life Insurance Company, Ltd. Japan		
The Prudential Property and Casualty Insurance Company of New Jersey Jersey, US		New

The Prudential Property and Casualty New Jersey Holdings, Inc. Jersey, US	New

The Prudential Property and Casualty New Jersey Insurance Brokerage, Inc. Jersey, US	New

	Prudential Real Estate and Relocation Services
	Prudential Real Estate and Relocation Solutions
	Prudential Real Estate and Relocation Services
The Prudential Real Estate Affiliates, Inc. Delaware, US	The Prudential Real Estate Affiliates, Inc. The Prudential Real Estate Affiliates, Inc. The Prudential Real Estate Affiliates, Inc.
	The Prudential Real Estate Affiliates, Inc. The Prudential Real Estate Affiliates, Inc.. The Prudential Real Estate Affiliates, Inc. The Prudential Real Estates Affiliates, Inc. The Prudential Real Estate Affiliates, Inc. The Prudential Real Estate Affiliates, Inc..

The Prudential Real Estate Financial Services Of America, Inc. California, US	

The Prudential Savings Bank, F.S.B. Federal, US	

The Prumerica Life Insurance Company, Inc. Philippines	

The PSI Program LLC Delaware, US	

The Relocation Freight Corporation of America California, US	

</TABLE>	

Subs List as of June 30, 2002

<TABLE>		
<CAPTION>		

Subsidiary	Doing Business As	
Jurisdiction of		
Incorporation		
=====		
=====		
<S>	<C>	<C>
The Robert C. Wilson Company		
Texas, US		

The Structured Finance Yield Fund, LLC		
Delaware, US		

THI Holdings (Delaware), Inc.		
Delaware, US		

Titan Auto Agency, Inc.		
Michigan, US		

Titan Auto Insurance Nevada, US	
Titan Auto Insurance of Arizona, Inc. Arizona, US	
Titan Auto Insurance of New Mexico, Inc. Mexico, US	New
Titan Auto Insurance of Pennsylvania, Inc. Pennsylvania, US	
Titan Auto Insurance, Inc. Colorado, US	
Titan Holdings Service Corporation Texas, US	
Titan Indemnity Company Texas, US	
Titan Insurance Company Michigan, US	
Titan Insurance Services, Inc. Texas, US	
Titan National Auto Call Center, Inc. Texas, US	
TransEuropean Properties (General Partner) II Limited England, UK	
TransEuropean Properties (General Partner) Limited England, UK	
TRGOAG Company, Inc. Delaware, US	
U.S. High Yield Management Company, Inc. Jersey, US	New
Victoria Automobile Insurance Company Indiana, US	
Victoria Financial Corporation Delaware, US	
Victoria Fire & Casualty Company Ohio, US	
Victoria Insurance Agency Ohio, US	
Victoria National Insurance Company Ohio, US	
Victoria Select Insurance Company Ohio, US	
Victoria Specialty Insurance Company Ohio, US	
W.I. of Florida Inc.	

Florida, US	

Wexford Clearing Services Corporation	
Delaware, US	

WHI of New York, Inc.	New
York, US	

Whitehall Holdings, Inc.	
Texas, US	

Whitehall Insurance Agency of Texas, Inc.	
Texas, US	

Whitehall of Indiana, Inc.	
Indiana, US	

WMF ComQuote, Inc	
Delaware, US	

WMF Funding Corporation	
Delaware, US	

Worldview Technology Partners IV, LP	US

</TABLE>