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

FORM 10-K

(MARK ONE)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED DECEMBER 31, 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	**22-3703799**
(State or Other Jurisdiction of Incorporation or Organization)	**(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)

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock, Par Value $.01	New York Stock Exchange
(including Shareholder Protection Rights)	New York Stock Exchange
6.75% Equity Security Units	

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

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

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

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

As of June 28, 2002, the aggregate market value of the registrant's Common Stock (par value $0.01) held by non-affiliates of the registrant was $19,448,162,293 and 582,978,486 shares of the Common Stock were outstanding. As of February 28, 2003, 554,729,134 shares of the registrant's Common Stock (par value $0.01) were outstanding. As of June 28, 2002, and February 28, 2003, 2,000,000 shares of the registrant's Class B Stock, for which there is no established public trading market, were outstanding and held by non-affiliates of the registrant.

DOCUMENTS INCORPORATED BY REFERENCE

THE INFORMATION REQUIRED TO BE FURNISHED PURSUANT TO PART III OF THIS FORM 10-K, EXCEPT FOR ITEM 14 OF PART III WHICH IS INCLUDED HEREIN, IS SET FORTH IN, AND IS HEREBY INCORPORATED BY REFERENCE HEREIN FROM, THE REGISTRANT'S DEFINITIVE PROXY STATEMENT FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON JUNE 3, 2003, TO BE FILED BY THE REGISTRANT WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO REGULATION 14A NOT LATER THAN 120 DAYS AFTER THE YEAR ENDED DECEMBER 31, 2002.

TABLE OF CONTENTS

			Page Number
PART I	Item 1.	Business	1
	Item 1A.	Executive Officers	58
	Item 2.	Properties	59
	Item 3.	Legal Proceedings	60
	Item 4.	Submission of Matters to a Vote of Security Holders	65
PART II	Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters	65
	Item 6.	Selected Financial Data	69
	Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	72
	Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	130
	Item 8.	Financial Statements and Supplementary Data	136
	Item 9.	Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	210
PART III	Item 10.	Directors and Executive Officers of the Registrant	210
	Item 11.	Executive Compensation	210
	Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	210
	Item 13.	Certain Relationships and Related Transactions	210
	Item 14	Controls and Procedures	210
PART IV	Item 15.	Exhibits, Financial Statement Schedules, and Reports on Form 8-K	211
SIGNATURES			224
CERTIFICATIONS			226

Forward-Looking Statements

Certain of the statements included in this Annual Report on Form 10-K, 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 negative impact of the current economic environment; various domestic or international military or terrorist activities or conflicts; 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 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 Annual Report on Form 10-K.

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

PART I

ITEM 1. BUSINESS

Overview and Demutualization

Prudential Financial, Inc. is one of the largest financial services institutions in the U.S. Through our subsidiaries and affiliates, we provide a wide range of insurance, investment management, securities and other financial products and services to individual and institutional customers in the U.S. and over 30 other countries through one of the largest distribution networks in the financial services industry. Our principal executive offices are located in Newark, New Jersey.

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.

On the date of demutualization, Prudential Financial completed an initial public offering of 126.5 million shares of its Common Stock at an initial public offering price of $27.50 per share, including 16.5 million shares issued 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." See "—Segregation of the Businesses" below for a discussion of 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. See "—Segregation of the Businesses—Separation of the Financial Services Businesses and the Closed Block Business" for further discussion of the IHC debt.

Concurrent with the demutualization, various subsidiaries of Prudential Insurance were reorganized (or "destacked") becoming direct or indirect subsidiaries of Prudential Financial. To effect the destacking, Prudential Insurance distributed to Prudential Financial, directly or indirectly, the following subsidiaries, together with certain related assets and liabilities:

- our property and casualty insurance companies;
- our principal securities brokerage companies;
- our international insurance companies;
- our principal asset management operations; and
- our international securities and investments, domestic banking, and residential real estate brokerage franchise and relocation services operations.

The Plan of Reorganization required us to establish and operate a regulatory mechanism known as the "Closed Block." The Closed Block is designed generally to provide for the reasonable expectations 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 10 to the Consolidated Financial Statements for more information on the Closed Block.

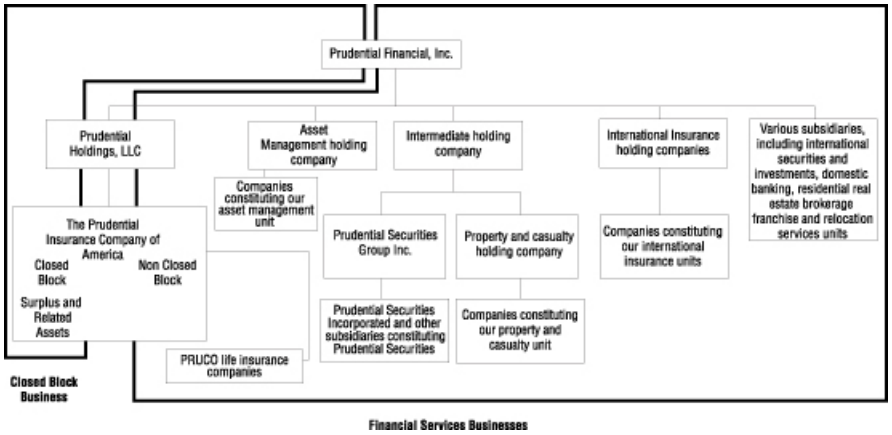
The Plan of Reorganization provided that Prudential Insurance may, with the prior consent of the New Jersey Commissioner of Banking and Insurance, enter into agreements to transfer to a third party all or any part of the risks under the Closed Block policies.

Segregation of the Businesses

General

The businesses of Prudential Financial are separated into the Financial Services Businesses and the Closed Block Business. For a discussion of the operating results of the Financial Services Businesses and the Closed Block Business see "Management's Discussion and Analysis of Financial Condition and Results of Operations." The Financial Services Businesses is comprised of our Insurance division, Investment division, and International Insurance and Investments division as well as our Corporate and Other operations. All division and segment information reflect the effect of the reorganization of the Financial Services Businesses completed in the third quarter of 2002. See "—Financial Services Businesses" below for a more detailed discussion of the divisions comprising the Financial Services Businesses. The Closed Block Business is comprised of the assets and related liabilities of the Closed Block and other assets and liabilities, including the IHC debt. See "—Closed Block Business" below for a more detailed discussion of the Closed Block Business.

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



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

The Common Stock reflects the performance of the Financial Services Businesses and the Class B Stock reflects the performance of the Closed Block Business. However, there can be no assurance that the market value of our Common Stock will reflect solely the performance of the Financial Services Businesses.

Separation of the Financial Services Businesses and the Closed Block Business

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

Financial Services Businesses. Assets and liabilities allocated to the Closed Block Business are those that we consider appropriate to operate that business. The Closed Block Business consists principally of:

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

The Closed Block Assets consist of (i) those assets initially allocated to the Closed Block, (ii) cash flows from such assets, (iii) assets resulting from the reinvestment of such cash flows, (iv) cash flows from the Closed Block Policies, and (v) assets resulting from the investment of cash flows from the Closed Block Policies. The Closed Block Assets include policy loans, accrued interest on any of the foregoing assets and due premiums on the Closed Block Policies. The Closed Block Assets do not include assets included in the Canadian Closed Block. The Closed Block Liabilities are Closed Block Policies and other liabilities of the Closed Block associated with the Closed Block Assets. The Closed Block Assets and Closed Block Liabilities are supported by additional assets outside the Closed Block that Prudential Insurance needs to hold to meet capital requirements related to the Closed Block Policies (the "Surplus Assets"), as well as invested assets held outside the Closed Block that represent the difference between the Closed Block Assets and the sum of the Closed Block Liabilities and the interest maintenance reserve (the "Related Assets" or, together with the Surplus Assets, the "Surplus and Related Assets"). The interest maintenance reserve, recorded only under statutory accounting principles, captures realized capital gains and losses resulting from changes in the general level of interest rates. These gains and losses are to be amortized into investment income over the expected remaining life of the investments sold.

On the date of demutualization, the majority of the net proceeds from the issuances of the Class B Stock and the IHC debt was allocated to our Financial Services Businesses. Also, on the date of demutualization, PHLLC distributed $1,218 million of the net proceeds of the IHC debt to Prudential Financial to use for general corporate purposes in the Financial Services Businesses. PHLLC deposited $437 million of the net proceeds of the IHC debt in a debt service coverage account maintained in the Financial Services Businesses which, together with reinvested earnings thereon, constitutes a source of payment and security for the IHC debt. The remainder of the net proceeds, or $72 million, was used to purchase a guaranteed investment contract to fund a portion of the bond insurance related to the IHC debt. To the extent we use the debt service coverage account to service payments with respect to the IHC debt or to pay dividends to Prudential Financial for purposes of the Closed Block Business, a loan from the Financial Services Businesses to the Closed Block Business would be established. Such inter-business loan would be repaid by the Closed Block Business to the Financial Services Businesses when earnings from the Closed Block Business replenish funds in the debt service coverage account to a specified level.

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

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

Within the Closed Block Business, the assets and cash flows attributable to the Closed Block inure solely to the benefit of the Closed Block policyholders through policyholder dividends after payment of benefits, expenses and taxes. The Surplus and Related Assets inure to the benefit of the holders of Class B Stock. The earnings on, and distribution of, the Surplus and Related Assets over time will be the source or measure of payment of the

interest and principal of the IHC debt and of dividends on the Class B Stock. The earnings of the Closed Block are reported as part of the Closed Block Business, although no cash flows or assets of the Closed Block inure to the benefit of the holders of Common Stock or Class B Stock. The Closed Block Assets are not available to service interest and principal of the IHC debt or dividends on the Class B Stock.

Inter-Business Transfers and Allocation Policies

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

Inter-Business Transactions and Transfers

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

- The Closed Block Business may lend to the Financial Services Businesses, and the Financial Services Businesses may lend to the Closed Block Business, in either case on terms no less favorable to the Closed Block Business than comparable internal loans and only for cash management purposes in the ordinary course of business and on market terms pursuant to our internal short-term cash management facility.
- Other transactions between the Closed Block and businesses outside of the Closed Block, including the Financial Services Businesses, are permitted if, among other things, such transactions benefit the Closed Block, are at fair market value and do not exceed, in any calendar year, a specified formulaic amount.
- Capital contributions to Prudential Insurance may be for the benefit of either the Financial Services Businesses or the Closed Block Business and assets of the Financial Services Businesses within Prudential Insurance may be transferred to the Closed Block Business within Prudential Insurance in the form of a loan which is subordinated to all existing obligations of the Closed Block Business on market terms.
- An inter-business loan from the Financial Services Businesses to the Closed Block Business may be established to reflect usage of the net proceeds of the IHC debt initially deposited in the debt service coverage account, and any reinvested earnings thereon, to pay debt service on the IHC debt or dividends to Prudential Financial for purposes of the Closed Block Business.
- In addition to the foregoing, the Financial Services Businesses may lend to the Closed Block Business, on either a subordinated or non-subordinated basis, on market terms as may be approved by Prudential Financial.
- The Financial Services Businesses and the Closed Block Business may engage in such other transactions on market terms as may be approved by Prudential Financial and, if applicable, Prudential Insurance.
- The Board of Directors has discretion to transfer assets of the Financial Services Businesses to the Closed Block, or use such assets for the benefit of Closed Block policyholders, if it believes such transfer or usage is in the best interests of the Financial Services Businesses, and such transfer or usage may be made without requiring any repayment of the amounts transferred or used or the payment of any other consideration from the Closed Block Business.
- Cash payments for administrative purposes from the Closed Block Business to the Financial Services Businesses are based on formulas that initially approximated the actual expenses incurred by the Financial Services Businesses to provide such services based on insurance and policies in force and statutory cash premiums. Administrative expenses recorded by the Closed Block Business, and the related income tax effect, are based upon actual expenses incurred under generally accepted accounting principles ("GAAP") utilizing the Company's methodology for the allocation of such expenses. Any difference in the cash amount transferred and actual expenses incurred as reported under GAAP will be recorded, on an after-tax basis at the applicable current rate, as direct adjustments to the respective equity balances of the Closed Block Business and the Financial Services Businesses, without the issuance of

shares of either Business to the other Business. This direct equity adjustment modifies earnings available to each class of common stock for earnings per share purposes. Internal investment expenses recorded and paid by the Closed Block Business, and the related income tax effect, are based upon actual expenses incurred under GAAP and in accordance with internal arrangements governing record keeping, bank fees, accounting and reporting, asset allocation, investment policy and planning and analysis.

Accounting Policies

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

- All our assets, liabilities, equity and earnings are allocated between the two Businesses and accounted for as if the Businesses were separate legal entities. Assets and liabilities allocated to the Closed Block Business are those that we consider appropriate to operate that business. All remaining assets and liabilities of Prudential Financial and its subsidiaries constitute the Financial Services Businesses.
- For financial reporting purposes, revenues; administrative, overhead and investment expenses; taxes other than federal income taxes; and certain commissions and commission-related expenses associated with the Closed Block Business are allocated between the Closed Block Business and the Financial Services Businesses in accordance with GAAP. Interest expense and routine maintenance and administrative costs generated by the IHC debt are considered directly attributable to the Closed Block Business and are therefore allocated to the Closed Block Business except as indicated below.
- Any transfers of funds between the Closed Block Business and the Financial Services Businesses will typically be accounted for as either reimbursement of expense, investment income, return of principal or a subordinated loan, except as contemplated under "—Inter-Business Transactions and Transfers" above.
- The Financial Services Businesses will bear any expenses and liabilities from litigation affecting the Closed Block Policies and the consequences of certain potential adverse tax determinations noted below. In connection with the sale of the Class B Stock and IHC debt, we have agreed to indemnify the investors with respect to certain matters, and such indemnification will be borne by the Financial Services Businesses.

Tax Allocation and Tax Treatment

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

If the Closed Block Business within any legal entity has taxable income, it pays its share of income tax in cash to the Financial Services Businesses. If it has losses or credits, it receives its benefit in cash from the Financial Services Businesses. If the losses or credits cannot be currently utilized in the consolidated federal income tax return of Prudential Financial for the year in which such losses or credits arise, the Closed Block Business will receive the full benefit in cash, and the Financial Services Businesses will subsequently recover the payment for itself at the time the losses or credits are actually utilized in computing estimated payments or in the consolidated federal income tax return of Prudential Financial. Certain tax costs and benefits are determined under the Plan of Reorganization with respect to the Closed Block using statutory accounting rules that may give rise to tax costs or tax benefits prior to the time that those costs or benefits are actually realized for tax purposes. If at any time the Closed Block Business is allocated any such tax cost or a tax benefit under the Plan of Reorganization that is not realized at that same time under the relevant tax rules but will be realized in the future, the Closed Block Business will pay such tax cost or receive such tax benefit at that time, but it shall be paid to or paid by the Financial Services Businesses. When such tax cost or tax benefit is subsequently realized under the relevant tax rules, the tax cost or tax benefit shall be allocated to the Financial Services Businesses. The foregoing principles will be applied so as to prevent any item of income, deduction, gain, loss, credit, tax cost or tax benefit being taken into account more than once by the Closed Block Business (including the Closed Block) or the Financial Services Businesses. For this purpose, items determined under the Plan of Reorganization with respect to any period prior to the date of demutualization ("Pre-Closing Tax Attributes") shall be taken into account with any such Pre-Closing Tax Attributes relating to the Closed Block being attributed to the Closed

Block Business and all other Pre-Closing Tax Attributes being attributed to the Financial Services Businesses. The Closed Block Business will also pay or receive its appropriate share of tax or interest resulting from adjustments attributable to the settlement of tax controversies or the filing of amended tax returns to the extent such tax or interest relates to controversies or amended returns arising with respect to the Closed Block Business and attributable to tax periods after the date of demutualization, except to the extent that such tax is directly attributable to the characterization of the IHC debt for tax purposes, in which case the tax shall be borne by the Financial Services Businesses. In particular (and without limitation of the foregoing) if a change of tax law after the date of demutualization, including any change in the interpretation of any tax law, results in the recharacterization of all or part of the IHC debt for tax purposes or a significant reduction in the income tax benefit associated with the interest expense on all or part of the IHC debt, the Financial Services Businesses will continue to pay the foregone income tax benefit to the Closed Block Business until the IHC debt has been repaid or PHLLC has been released from its obligations to the bond insurer and under the IHC debt as if such recharacterization or reduction of actual benefit had not occurred.

Financial Services Businesses

The Financial Services Businesses is comprised of three divisions, containing nine segments, and our Corporate and Other operations. The Insurance division is comprised of our Individual Life and Annuities, Group Insurance, and Property and Casualty Insurance segments. The Investment division is comprised of the Investment Management, Financial Advisory, Retirement, and Other Asset Management segments. The International Insurance and Investments division is comprised of the International Insurance and International Investments segments.

See Note 21 to the Consolidated Financial Statements for revenues, income and loss, and total assets by segment of the Financial Services Businesses.

Insurance Division

The Insurance division conducts its business through the Individual Life and Annuities, Group Insurance and Property and Casualty Insurance segments.

Individual Life and Annuities

Our Individual Life and Annuities segment manufactures and distributes individual variable life, term life, universal life and other non-participating individual life insurance, and variable and fixed annuity products, primarily to the U.S. mass affluent market and mass market. In general, we consider households with investable assets or income in excess of $100,000 as mass affluent. Our life and annuity products are distributed primarily through Prudential Agents and increasingly through third parties. Our annuities products are also distributed through the Financial Advisors of our Financial Advisory segment.

On December 20, 2002, we announced that we had entered into a definitive Stock Purchase Agreement, dated as of December 19, 2002 (the “Stock Purchase Agreement”), with Skandia Insurance Company Ltd., an insurance company organized under the laws of the Kingdom of Sweden (“Skandia”), pursuant to which we will acquire Skandia U.S. Inc., a Delaware corporation (“Skandia U.S.”), from Skandia. The acquisition will be made in a two-step transaction, with the Company initially acquiring shares representing approximately 90% of Skandia U.S. common stock and Skandia U.S. repaying debt owed to Skandia and acquiring certain securitization notes of the ASLAC Funding Trusts (related financing trusts). The remaining approximately 10% of Skandia U.S. common stock are subject to a put/call arrangement under which we have the right to acquire the remaining shares (at an agreed price) beginning 30 days following the end of the calendar quarter in which the closing occurs and Skandia has the right to require us to purchase such shares at a higher price beginning 40 days later. Skandia U.S. is the sole shareholder of American Skandia, Inc. (“ASI”), which, through American Skandia Life Assurance Corporation (“ASLAC”) and other subsidiaries, manufactures and sells variable annuity products and mutual funds in the U.S. In addition to ASLAC, we will acquire other ASI subsidiaries, but will not acquire Skandia Vida S.A. de C.V., ASI’s Mexican subsidiary. The total consideration payable in the transaction is a

cash purchase price of $1.15 billion and assumption of a $115 million liability, subject to certain purchase price adjustments. The total consideration represents 72% of ASI's book value at September 30, 2002.

The transaction is subject to various closing conditions, including, among others, regulatory approvals, filing under the Hart-Scott-Rodino Antitrust Improvements Act and approval by the boards of directors and shareholders of the mutual funds advised by Skandia U.S.'s subsidiaries.

In the Stock Purchase Agreement, Skandia has agreed to indemnify us for certain losses, including losses resulting from litigation or regulatory matters relating to events prior to closing the transaction and brought within four years, subject to an aggregate cap of $1 billion.

Under the terms of a License Agreement, we will have the right to use the "American Skandia" name in conjunction with our own name in the U.S. in the annuity business for five years and in the mutual fund business for two years. Skandia has agreed not to compete with us in the U.S. in the annuity business for five years and in the mutual fund business for two years.

Products

Variable Life Insurance

We offer a number of individual variable life insurance products that provide a return linked to an underlying investment portfolio designated by the policyholder while providing the policyholder with the flexibility to change both the death benefit and premium payments. Each product provides for the deduction of charges and expenses from the customer's investment account. We also offer variable life products targeted to the estate planning and corporate-owned life insurance markets.

Term Life Insurance

We offer a variety of term life insurance products. Most term products include a conversion feature that allows the policyholder to convert the policy into permanent life insurance coverage. We most recently repriced our term insurance portfolio in September 2002.

Universal Life Insurance

We offer universal life insurance products that feature a market rate fixed interest investment account and flexible premiums.

Variable and Fixed Annuities

We offer variable annuities that provide our customers with the opportunity to invest in proprietary and non-proprietary mutual funds and fixed-rate options. The investments made by customers in the proprietary and non-proprietary mutual funds represent separate accounts for which the contractholder bears the investment risk. The investments made in the fixed rate options are credited with interest at rates determined by us, subject to certain minimums. Additionally, our variable annuities products offer certain minimum death benefit and living benefit guarantee options. We also offer fixed annuities that provide a guarantee of principal and a guaranteed interest rate to be credited to the principal amount for a specified period of time.

Marketing and Distribution

Prudential Agents

Our Prudential Agents distribute variable, universal and term life insurance, variable and fixed annuities, and investment and protection products with proprietary and non-proprietary investment options as well as selected insurance products manufactured by others.

The following table sets forth the number of Prudential Agents, field managers, home office and field staff and field offices as of the dates indicated.

	As of December 31,		
	2002	2001	2000
Prudential Agents	4,389	4,387	6,086
Field management	472	573	542
Home office and field staff	1,053	1,202	1,173
Prudential field offices	79	79	79

Prudential Agents historically have sold life insurance products primarily to customers in households with income ranging from about $20,000 to $80,000 per year. More recently, Prudential Agents have increasingly targeted mass affluent individuals as well as small business owners.

The majority of Prudential Agents are multi-line traditional agents. Other than certain training allowances or salary paid at the beginning of their employment, we pay traditional Prudential Agents on a commission basis for the products they sell. In addition to commissions, traditional Prudential Agents receive the employee benefits we provide to other Prudential employees generally, including medical and disability insurance, an employee savings program and qualified retirement plans.

Third Party Distribution

Our individual life and annuity products are offered through a variety of third party channels, including independent brokers, general agencies, producer groups, banks and broker-dealers. We have historically focused on serving the intermediaries who provide insurance solutions in support of estate and wealth transfer planning for affluent individuals and corporate-owned life insurance for businesses. However, we have expanded our target market to include mass affluent individuals in addition to affluent individuals. The life insurance and annuity products offered are generally the same as those available through Prudential Agents. Our third party efforts are supported by a network of internal and external wholesalers.

Underwriting and Pricing

Life Insurance

Our life insurance underwriters follow detailed and uniform policies and procedures to assess and quantify the risk of our individual life insurance products. We require the applicant to take a variety of underwriting tests, such as medical examinations, electrocardiograms, blood tests, urine tests, chest x-rays and consumer investigative reports, depending on the age of the applicant and the amount of insurance requested. Our universal life insurance contracts and the fixed component of our variable life insurance contracts feature crediting rates, which are periodically reset. In resetting these rates, we consider the returns on our portfolios supporting the interest-sensitive life insurance business, current interest rates, the competitive environment, and our profit objectives.

Annuities

We earn investment management fees based upon the average assets of the mutual funds in our variable annuity products and mortality and expense fees and other fees for various insurance-related options and features based on average daily net assets of the value of the annuity separate accounts. We price our fixed annuities as well as the fixed-rate options of our variable annuities based on assumptions as to investment returns, expenses and persistency. Competition also influences our pricing. We seek to maintain a spread between the return on our general account invested assets and the interest we credit on our fixed annuities. To encourage persistency, all of our variable and fixed annuities, other than our single premium fixed annuities, have withdrawal restrictions and declining surrender or withdrawal charges for a specified number of years.

Reserves

We establish reserve and policyholder fund liabilities to recognize our future benefit obligations for our in force life and annuity policies. For variable and interest-sensitive life insurance and annuity contracts, we

establish policyholders' account balances that represent cumulative gross premium payments plus credited interest and/or fund performance, less withdrawals, expenses and mortality charges.

Our variable annuity products contain a guaranteed minimum death benefit feature that prescribes a minimum benefit to be paid upon the death of the annuitant. This minimum death benefit is based on the net deposits paid into the contract, the net deposits accumulated at a specific rate, the highest historical account value on a contract anniversary or, more typically, the greatest of these values depending on features offered in various contracts and elected by the contract holder. These contracts generally require payment of additional charges for guarantees other than those based on net deposits paid into the contract. To the extent that the guaranteed minimum death benefit is higher than the current account value at the time of death, we incur a cost that results in increased annuity policy benefits. We currently do not record a corresponding reserve for these future obligations, as current accounting literature does not prescribe the advanced recognition of expected future net costs associated with these guarantees. Costs associated with such benefits are recorded as a charge to earnings in the period in which the death benefit is paid. However, we consider the expected net costs associated with these guarantees in our calculations of expected gross profits on the variable annuity business, on which our periodic evaluations of unamortized policy acquisition costs are based. A proposed AICPA Statement of Position ("SOP"), "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts," would require us to establish such a reserve. We are currently evaluating the impact of this proposed SOP. As of December 31, 2002, the death benefit coverage in force (representing the amount that we would have to pay if all annuitants had died on that date) was approximately $3.4 billion. The death benefit coverage in force represents the excess of the guaranteed benefit amount over the fair value of the underlying mutual fund investments.

Reinsurance

Since 2000, we have reinsured the majority of the mortality risk we assume under our newly sold individual life insurance policies. The maximum amount of individual life insurance we may retain on any life is $30 million under an individual policy and $50 million under a second-to-die life policy.

Group Insurance

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

Products

Group Life Insurance

We offer group life insurance products including basic, supplemental or optional, dependent term and universal life insurance. We also offer group variable universal life insurance and supplemental accidental death and dismemberment insurance. Many of our employee-pay coverages include a portability feature, allowing employees to retain their coverage when they change employers or retire. We also offer a living benefits option that allows insureds that are diagnosed with a terminal illness to receive up to 50% of their life insurance benefit upon diagnosis, in advance of death, to use as needed.

Group Disability Insurance

We offer short- and long-term group disability insurance, which protects against loss of wages due to illness or injury. Short-term disability generally provides coverage for three to six months, and long-term disability covers the period after short-term disability ends. We also offer absence management and integrated disability management services in conjunction with a third party.

Other

We offer individual and group long-term care insurance and group corporate- and trust-owned life insurance. Long-term care insurance protects the insured from the costs of care in the community, at an adult day

care center, a nursing home or similar live-in care situation or at home by providing a home health or a personal care aide. Group corporate- and trust-owned life insurance are group variable life insurance contracts typically used by large corporations to fund benefit plans for retired employees. These latter products also may be used as vehicles to deliver deferred compensation or non-qualified benefits to active employees.

Marketing and Distribution

Group Insurance has its own dedicated sales force that distributes through the broker and consultant market. Group Insurance's dedicated sales force is organized around products and market segments and distributes primarily through employee benefits brokers and consultants. Group Insurance also distributes group life products through Prudential Agents, primarily to the small case market (less than 25 employees), and individual long-term care products through Prudential Agents as well as third party brokers and agents.

Underwriting and Pricing

Group Insurance's product underwriting and pricing is centralized. We have developed standard rating systems for each product line based on our past experience and relevant industry experience. We are not obligated to accept any application for a policy or group of policies from any distributor. We follow uniform underwriting practices and procedures. If the coverage amount exceeds certain prescribed age and amount limits, we may require a prospective insured to submit to paramedical examinations.

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

Our other policies are not eligible to receive experience based refunds. The adequacy of our initial pricing of these policies determines their profitability. Long-term disability, in particular, involves a commitment to insure disability that continues potentially over a person's lifetime and, accordingly, contains the risk that loss experience is affected by circumstances we did not expect when we issued a policy and substantially exceeds pricing assumptions. In addition, the trend towards multiple year rate guarantees for new policies, which are typically three years for life insurance and two years for disability insurance, further increases the adverse consequences of mispricing coverage and lengthens the time it takes to reduce loss ratios.

We have refocused group life and disability on improved risk selection and reduced benefits ratios. We commenced pricing adjustments in 2001, when contractually permitted, which consider the deterioration of the benefits ratio on our group life insurance products since 2000. While there can be no assurance, we expect these actions, as well as pricing discipline in writing new business, will allow us to achieve gradual improvements in our loss ratios, although the impact has so far been limited by a highly competitive market. 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.

Reserves

We establish and carry as liabilities actuarially determined reserves that we believe will meet our future obligations. We base these reserves on actuarially recognized methods using prescribed morbidity and mortality tables in general use in the U.S., which we modify to reflect our actual experience when appropriate. We calculate our reserves to equal the amounts that we expect will be sufficient to meet our policy obligations. Reserves also include claims reported but not yet paid, claims incurred but not reported and claims in the process of settlement.

Reinsurance

We reinsure portions of the risk we assume under our group accidental death and dismemberment policies that are not eligible to receive experience based refunds. In addition, we have catastrophic reinsurance on our group life and accidental death and dismemberment products, with stated deductible amounts and subject to contractual limits. We reinsure portions of our disability insurance risks with third party reinsurers.

Property and Casualty Insurance

Our Property and Casualty Insurance segment manufactures and distributes personal lines property and casualty insurance products, principally automobile and homeowners coverages, to the U.S. retail market. Historically, a significant portion of our property and casualty insurance business has been concentrated in New Jersey, which accounted for 24.6% of our net written premium in 2002. Additionally, New Jersey law requires an insurance company to provide automobile insurance to every applicant that meets certain minimum eligibility criteria. New Jersey law caps profits on automobile coverages under an excess profits law and also imposes limitations on the rates that may be charged in certain territories regardless of loss experience.

In the third quarter of 2002, we announced that we are exploring options concerning our property and casualty insurance business, including the possible sale of all or part of these operations. No final decision has been made, and we are still exploring all of our options.

Products

Our primary property and casualty products are automobile and homeowners insurance. We also offer watercraft, dwelling, fire and personal umbrella policies.

Automobile

We segment our automobile customers based on their respective driving and loss histories into preferred, standard and non-standard segments. In May 2000, we purchased the specialty automobile insurance business of the St. Paul Companies, THI Holdings (Delaware), Inc., ("THI"), which writes policies in the non-standard segment.

Homeowners

We offer four main homeowners products: standard and premier policies for owner-occupied houses, a policy for owner-occupied condominiums and a tenant policy for renters. These policies all include coverage for personal property, loss of use, personal liability and medical payments to others. Our owner-occupied policies also include coverage for the dwelling and other structures. To limit our catastrophe exposure we offer special deductibles in certain states for hurricane, windstorm, hail and earthquake, when earthquake coverage is purchased by the insured. We generally do not write coverage for homes with replacement values of greater than $950,000.

Marketing and Distribution

We distribute our products through Prudential Agents, workplace and affinity marketing, and independent agents. We also distribute certain specialty coverages written by other insurers through brokerage arrangements.

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 discontinued 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 selected markets.

Through Merastar Insurance Company, which we acquired in 1998, we offer individual property and casualty policies to workplace groups and professional work-related associations, a payroll deduction capability for the sale of its products, and pricing that reflects a group discount. Additionally, in 1999, we also began offering products through small- to medium-sized independent insurance agencies. Our acquisition of THI in May 2000, which sells non-standard automobile policies through independent agents and on a direct basis, has broadened the scope of our mass market.

Underwriting and Pricing

Our agents are responsible for field underwriting, and they must adhere to risk selection guidelines developed by the underwriting department. The underwriting department performs a final review of all applications other than applications processed through an on-line automated underwriting system that is now in place in many states.

We seek to price our products to produce an adequate return on capital over time, subject to adjustments reflecting our market segmentation strategy. Our pricing considers the expected frequency and severity of losses and the costs of providing the necessary coverage, including the cost of administering policy benefits, sales and other administrative costs. State rate regulation significantly affects pricing. Our 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.

During 2002, we announced a moratorium on the writing of new business in two states for automobile and 14 states for homeowner. Prior to 2002, we had a moratorium in place for new business for homeowners in two states.

Reserves

We establish reserves for payment of loss and loss adjustment expenses in accordance with applicable regulations. Consistent with industry accounting practice, we do not establish loss reserves until a loss, including a loss from a catastrophe, has occurred. The following table sets forth a summary reconciliation of our property and casualty beginning and ending reserves, determined on the basis of statutory accounting principles for the periods indicated.

	Year Ended December 31,		
	2002	2001	2000
		(in millions)	
Reserves for loss and loss adjustment expenses, beginning of the year	$ 1,082	$ 1,240	$ 1,439
Loss and loss adjustment expenses:			
Provision attributable to the current year	1,615	1,440	1,271
Increase (decrease) in provision attributable to prior years	(15)	(113)	(165)
Total loss and loss adjustment expenses	1,600	1,327	1,106
Payments:			
Loss and loss adjustment expenses attributable to current year	967	932	841
Loss and loss adjustment expenses attributable to prior years	452	553	583
Total payments	1,419	1,485	1,424
Acquisition of THI Holdings	—	—	119
Reserve for loss and loss adjustment expenses, end of year(1)(2)	$ 1,263	$ 1,082	$ 1,240

(1) Total reserves are net of reinsurance recoverables of $598 million at December 31, 2002, $671 million at December 31, 2001 and $608 million at December 31, 2000.

(2) Our Property and Casualty Insurance segment has limited exposure to pre-1986 mass tort claims as a result of its former interest in Prudential-LMI Commercial Insurance Company, which we purchased in 1986 and sold in 1992 and a reserve guarantee associated with the sale of our reinsurance company in 2000. Our total reserves held for these contracts, which we included in the reserve table above, aggregated $107 million as of December 31, 2002, on a net basis. Based on currently available information, we believe approximately $101 million may be related to asbestos or environmental exposures. Estimation of ultimate liabilities for these claims is unusually difficult, however, due to outstanding issues such as the existence of coverage, the definition of an occurrence, the determination of ultimate damages and allocation of damages to financially responsible parties. It is possible that these claims might become material in the future.

Our net reserves have increased over the past year primarily due to the recovery of $84 million from our 2000 and 2001 aggregate stop loss contracts, as well as the addition of $79 million of reserves related to the Everest Re/Gibraltar transaction. See "—Corporate and Other Operations—Divested Businesses—Gibraltar Casualty" for further discussion. This additional $79 million in reserves related to Everest Re is reflected here only for purposes of results determined on the basis of statutory accounting principles. For segment reporting purposes, this reserve is reflected in the results of divested businesses and not included in the results of the Property and Casualty Insurance segment. In addition, the Company has released reserves from prior years of $15 million in 2002 (including $4 million for the release of reserves for prior years for group personal catastrophe coverage, which are reflected only for purposes of results determined on the basis of statutory accounting principles), $113 million in 2001 (including $7 million for the release of reserves for prior years for group personal catastrophe coverage) and $165 million in 2000.

We establish loss reserves to recognize the estimated amount necessary to bring all pending reported, and incurred but not reported, claims to final settlement. Many factors can influence the amount of loss reserves required, such as changes in laws and regulations, judicial decisions, litigation and settlements, medical care costs, rehabilitation costs, the costs of automobile and home repair materials and labor rates, and other factors. We review our loss reserves quarterly. We record our loss reserves at their full undiscounted value. We do not make an explicit provision for the effects of inflation on loss and loss adjustment expense reserve calculations. The establishment of loss reserves is an inherently uncertain process, and we cannot assure that ultimate losses will not exceed the Property and Casualty Insurance segment's reserves.

Catastrophe Exposure Risk Management Program and Reinsurance

Our personal lines property and casualty insurance operations expose us to claims arising out of catastrophes, principally under our homeowners insurance policies. Hurricanes, earthquakes, tornados, wind, hail, fires, explosions and other events may cause catastrophes, and the occurrence and severity of catastrophes are inherently unpredictable.

We have taken significant steps to reduce our exposure to catastrophic losses since Hurricane Andrew in 1992, including:

- reducing the number of homes insured against wind in southern Florida by over 70%;
- increasing deductibles on homeowners' policies and offering separate deductibles for hurricane, windstorm, hail and earthquake in some states;
- participating in the Florida Hurricane Catastrophe Fund;
- withdrawing from business in Hawaii;
- transferring our California earthquake exposure to the California Earthquake Authority; and
- a moratorium on the writing of new business in two states for automobile and 14 states for homeowners.

These activities have reduced our catastrophe exposure and the number of our homeowners' policies in force. In addition to these risk management actions, we rely substantially on catastrophe reinsurance and other reinsurance to limit our catastrophe exposure.

Our greatest exposure to catastrophe loss is during hurricane season, from June to November of each year. Based on our policies in force as of December 31, 2002, we believe we have limited our pre-tax catastrophe exposure from a single one-in-250 year catastrophe to approximately $285 million, or approximately $185 million on an after-tax basis representing approximately 1.0 % of our consolidated equity as of December 31, 2002. This limitation relies significantly on our catastrophe protection reinsurance program. Catastrophes are inherently uncertain, however, and the loss or losses from a single or multiple catastrophes could exceed the foregoing amount, perhaps materially. It is possible that catastrophes could materially negatively affect our results of operations or cash flow in particular quarterly or annual periods. We believe, however, that, based on our current estimated exposures, losses from catastrophes, net of reinsurance, should not have a material adverse effect on our financial condition.

We periodically revise our reinsurance program to reflect what we believe are our reinsurance needs. Our current catastrophe protection reinsurance program, in effect until June 30, 2003, consists of an excess of loss reinsurance contract with a consortium of U.S. and international reinsurers, including Lloyds of London syndicates.

Future changes in our reinsurance programs will likely affect our assessment of our exposure to a major catastrophe loss. There have been, and in the future may be, periods when reinsurance is not available or at least not at acceptable rates and levels. The loss of all or portions of our reinsurance program could subject us to increased exposure, which could be material. We are also subject to credit risk with respect to our reinsurers and other risk bearers, such as the Florida Hurricane Catastrophe Fund, because the ceding of risk to them does not relieve us of our liability to insureds. Our recovery of less than contracted amounts from our reinsurers and other risk bearers could have a material adverse effect on our results of operations. We seek to mitigate this risk through diversification of reinsurers as well as maintenance of minimum financial standards for their participation in our reinsurance programs.

Claims

We staff our property and casualty claims department with claims associates based in regional offices throughout the U.S. We generally specialize our claims handling by type of claim, and our home office claims staff is responsible for setting policies and procedures and overseeing field claim operations. Whenever possible, we use our own staff to conduct claim inspections. We use independent claims adjusters when necessary to handle claims in remote areas and to handle overflow during catastrophes.

Investment Division

The Investment division conducts its business through the Investment Management, Financial Advisory, Retirement, and Other Asset Management segments.

Investment Management

The Investment Management segment provides a broad array of investment management and advisory services, mutual funds and other structured products. These products and services are marketed and provided to the public and private marketplace in addition to the Insurance division, the International Insurance and Investments division, the Financial Advisory segment, and the Retirement segment.

Investment Management and Advisory Services Operating Data

The following tables set forth Investment Management and Advisory Services assets under management at fair market value by asset class and source as of the dates indicated.

	December 31, 2002			
	Equity(1)	Fixed Income(2)	Real Estate	Total(4)
	(in billions)			
Retail customers(3)	$ 33.2	$ 46.5	$ 0.2	$ 79.9
Institutional customers	24.4	47.2	13.6	85.2
General account	2.7	118.8	1.4	122.9
Total	$ 60.3	$ 212.5	$ 15.2	$ 288.0

	December 31, 2001			
	Equity(1)	Fixed Income(2)	Real Estate	Total
	(in billions)			
Retail customers(3)	$ 44.2	$ 52.3	$ —	$ 96.5
Institutional customers	39.6	39.5	10.0	89.1
General account	1.9	110.5	1.4	113.8
Total	$ 85.7	$ 202.3	$ 11.4	$ 299.4

	December 31, 2000			
	Equity(1)	Fixed Income(2)	Real Estate	Total
	(in billions)			
Retail customers(3)	$ 58.7	$ 48.7	$ —	$ 107.4
Institutional customers	46.4	38.7	10.0	95.1
General account	2.2	105.6	2.2	110.0
Total	$ 107.3	$ 193.0	$ 12.2	$ 312.5

(1) Includes private equity investments of institutional customers of $0.6 billion as of December 31, 2002, $0.6 billion as of December 31, 2001, and $0.6 billion as of December 31, 2000, and private equity assets in our general account of $1.0 billion, $1.4 billion, and $1.3 billion as of those dates, respectively.

(2) Includes private fixed income assets of institutional customers of $4.9 billion as of December 31, 2002, $4.1 billion as of December 31, 2001, and $4.2 billion as of December 31, 2000, and private fixed income assets in our general account of $47.1 billion, $45.1 billion, and $45.9 billion, as of those dates, respectively. Included in these private fixed income assets are commercial and agricultural mortgages for institutional customers of $2.1 billion as of December 31, 2002, $2.6 billion as of December 31, 2001, and $3.0 billion as of December 31, 2000, and commercial and agricultural mortgages for our general account of $17.5 billion, $16.9 billion, and $17.0 billion, as of those dates, respectively.
(3) Consists of individual mutual funds and both variable annuities and variable life insurance in our separate accounts. Fixed annuities and the fixed-rate option of both variable annuities and variable life insurance are included in our general account.
(4) Reflects reclassification of amounts by client category as of January 1, 2002, based on internal management criteria, which reduced the amount attributed to retail customers by $3.3 billion and increased the amounts attributable to institutional customers and the general account by $2.8 billion and $0.5 billion, respectively.

Most of the retail customer assets reflected in the foregoing tables are invested in our mutual funds discussed below under "—Financial Advisory," and our variable annuities and variable life insurance products described above under "—Insurance Division." These retail assets under management are gathered by the Financial Advisory segment, the Insurance division, the International Insurance and Investments division, and third party networks.

In addition, we provide investment management services for our institutional customers through direct sales. As described below, within this segment we utilize the same investment management capabilities to provide asset management and services for institutional customers and our retail customers' assets. We also provide investment management services for our general account as described below under "—General Account Investments."

Mutual Fund and Wrap-Fee Operating Data

The following table sets forth our mutual fund, wrap-fee and unit investment trust products at fair market value as of the dates indicated.

	As of December 31,		
	2002	2001	2000
	(in billions)		
Mutual funds(1)	$ 49.8	$ 57.8	$ 57.8
Wrap-fee products(2)	15.2	18.0	19.6
Unit investment trusts	0.8	1.2	1.6

(1) Mutual funds includes only those sold as retail investment products. Also includes balances from sub-advised funds of $2.4 billion, $1.5 billion and $0.4 billion at December 31, 2002, 2001 and 2000, respectively.
(2) Wrap-fee product assets include $2.8 billion, $3.1 billion and $3.4 billion of proprietary assets at December 31, 2002, 2001 and 2000, respectively.

Since the 1990s, there has been an industry trend for products such as mutual funds and variable annuities to include investment alternatives that are managed by asset managers other than the product sponsor. Over the last several years, we have been building investment management choice into most of our mutual fund products. We are able to offer customers investment alternatives in some of our products that may be advised by third parties with asset management styles that we may or may not offer.

Investment Management and Advisory Services Products and Services

Public Equity and Fixed Income Asset Management

Our public equity and fixed income organizations provide discretionary and non-discretionary asset management services to a broad array of clients. We manage a broad array of publicly traded equity and debt asset classes using various investment styles. In 2000, substantially all of our active public equity asset management capabilities were consolidated into our wholly-owned subsidiary, Jennison Associates, LLC ("Jennison"). Jennison is a widely recognized manager of institutional assets and is a leading sub-advisor for mutual fund assets.

Real Estate and Private Equity Asset Management

Our real estate organization provides asset management services for single-client and commingled real estate portfolios and manufactures and manages a variety of real estate investment vehicles, primarily for institutional clients. Our real estate investment vehicles range from fully diversified funds to specialized funds that invest in specific types of properties or specific geographic regions or follow other specific investment strategies.

On December 31, 2002, we acquired TMW Immobilien AG and TMW Real Estate Group, LLC (together "TMW"), one of the largest independent investment managers for international real estate with $3.9 billion in net assets under management. TMW is headquartered in Munich, Germany and Atlanta, GA, with offices throughout Europe, and will be integrated with the rest of our institutional real estate management activities.

At the end of 2001, we decided to exit our private equity asset management business through divestiture and rationalization of the remaining activities into our private fixed income asset management business. The remaining assets we manage, primarily for our general account, include venture capital, leveraged buyouts, development capital, mezzanine debt and certain special situations, but we do not intend to sponsor new funds other than for mezzanine debt.

Commercial Mortgage Origination and Servicing

Our commercial mortgage banking business provides mortgage origination and servicing, primarily for our general account and institutional clients. The unit also originates and purchases commercial mortgages for sale in securitization transactions. Origination and servicing activity is included in this segment. Securitization activity is included in the Other Asset Management segment, as described below under "—Other Asset Management—Commercial Mortgage Securitization."

In May 2000, we acquired The WMF Group, Ltd., a leading originator and servicer of multi-family and commercial mortgage loans, which has been integrated with the rest of our commercial mortgage banking activities. The WMF businesses that were acquired include Fannie Mae loan origination and servicing, FHA loan origination and servicing and a high-yield real estate funds management company.

Mutual Funds Products and Services

We manufacture, distribute and service investment management products utilizing proprietary and non-proprietary asset management expertise in the U.S. retail market. Our products are designed to be sold by Financial Advisors, Prudential Agents, and third party financial professionals. We offer a family of retail investment products consisting of 65 mutual funds, four wrap-fee products, and over one hundred unit investment trusts as of December 31, 2002. These products cover a wide array of investment styles and objectives designed to attract and retain assets of individuals with varying objectives and to accommodate investors' changing financial needs.

The following table sets forth the net sales (redemptions) of our retail mutual funds, which include funds that we manage in third party products ("sub-advised funds"), by asset class for the periods indicated. Net sales (redemptions) are equal to gross sales minus redemptions. This data excludes mutual funds sold through defined contribution plan products.

	Year Ended December 31,		
	2002	2001	2000
	(in millions)		
Equity	$ 99	$ 642	$ 985
Fixed income	(358)	(66)	(1,168)
Total mutual funds net sales (redemptions) other than money market	(259)	576	(183)
Money market	(3,944)	1,363	1,976
Total net sales (redemptions)(1)	$ (4,203)	$ 1,939	$ 1,793

(1) Includes net sales from sub-advised funds of $1,332 million in 2002, $1,187 million in 2001 and $472 million in 2000.

The following table sets forth our retail mutual fund assets, including sub-advised funds, under management by asset class at fair market value as of the dates indicated.

	As of December 31,		
	2002	2001	2000
	(in billions)		
Equity	$ 13.0	$ 17.7	$ 20.8
Fixed income	6.9	7.0	7.1
Money market	29.9	33.1	29.9
Total assets under management	$ 49.8	$ 57.8	$ 57.8

Wrap-Fee Products

We offer several wrap-fee products that provide access to mutual funds and separate account products with the payment of fees based on the market value of assets under management. Our wrap-fee products have higher minimum investment levels than our mutual funds and offer a choice of both proprietary and non-proprietary investment management. We also provide private label wrap-fee products for other financial services firms. Net sales of our wrap-fee products were $0.4 billion in 2002, $1.4 billion in 2001 and $4.8 billion in 2000.

Marketing and Distribution

Investment Management and Advisory Services

We provide asset management services across a broad array of asset classes to certain segments of the Financial Services Businesses. We obtain third party retail clients through our mutual fund business, discussed below. We generally distribute to third party institutional clients through our proprietary sales force.

Mutual Funds

We distribute our mutual fund products through the Financial Advisors of the Financial Advisory segment, through the Prudential Agents of the Individual Life and Annuities segment and through third parties. To better meet the needs of the mass affluent market, Financial Advisors increasingly focus on fee-based financial advisory services. Similarly, Prudential Agents increasingly focus on offering advice on an array of proprietary and non-proprietary products. To support these initiatives, we extended the research-driven approach to money management used in our managed accounts and wrap-fee products to our mutual funds. Our wrap-fee platforms include tools that support our Financial Advisors and Prudential Agents in their roles as advisors and provide them with a wide range of selected investment alternatives. We call this strategy “Advised Choice” and believe it helps advisors satisfy investors’ desire to have choice of products and money managers.

In 1998, we began to develop and implement plans for sales through third parties. Such sales were responsible for approximately 33% of 2002 overall gross mutual fund and wrap-fee products sales, excluding money market funds. Net sales of mutual funds, other than money market funds, through third party channels totaled $1.7 billion in 2002 and represent the fastest growing sales channel in this segment on a net basis. We have also launched an initiative under which outside asset-gathering companies add our investment options to their products.

Financial Advisory

The Financial Advisory segment provides full service securities brokerage and financial advisory services to individuals and businesses through our domestic and Latin American Prudential Securities Financial Advisor force and network of branch offices. The foundation of our business strategy is to provide sound investment and securities advice to affluent clients and to achieve the highest level of client satisfaction. The Financial Advisory segment also includes our equity security sales and trading operations, our investment research operations, our consumer banking operations, and the distribution of our wrap-fee products.

In February 2003, we announced an agreement with Wachovia Corporation (“Wachovia”) to combine each company’s respective retail securities brokerage and clearing operations to form a new firm, which will be

headquartered in Richmond, VA. Under the agreement we will have a 38% ownership interest in the new firm, which we will account for under the equity method of accounting, while Wachovia will own the remaining 62%. The transaction, which includes our securities brokerage operations discussed below, but does not include equity sales, trading and research operations or our consumer banking operations, is anticipated to close in the third quarter of 2003. This transaction is subject, among other things, to various regulatory approvals and filings and customary closing conditions.

Products and Services

Securities Brokerage Operations

Most of the client assets in our Financial Advisory segment are held in Command accounts or basic brokerage accounts. The Command account, our primary retail client account, helps clients manage their assets and is the cornerstone of our asset gathering strategy. Through a Command account, clients can consolidate their financial assets, obtain a range of financial services and invest in a wide variety of investment products. Clients can also access account information, our research, market news and other information and execute transactions through our on-line service, PruFn.com.

Through Prudential Advisor, we offer a sliding scale asset-based fee for advice with a fixed fee for transaction execution. Clients have the choice of executing transactions directly through PruFn.com or through their Financial Advisor. We also offer clients two fee-based programs providing for full-time discretionary management by the client's Financial Advisor in addition to wrap-fee products that provide access to mutual funds and separate account products with the payment of fees based on the market value of assets under management.

Clients may borrow from us to fund the purchase of securities using the securities purchased or other securities in the account as collateral. As a matter of credit policy, we generally require our clients to maintain higher percentages of collateral values than the minimum percentages required by the applicable federal and stock exchange margin rules. Interest on margin loans is an important component of our revenue and is subject to change based on market trading volume and volatility.

In addition, we engage in sales and trading of government, corporate, agency, municipal and mortgage-backed fixed income securities and related products, primarily for retail customers. Finally, we provide domestic securities clearing services to other brokers. Providing these clearing services to unaffiliated correspondent brokers offsets overhead costs for all businesses within the Prudential Securities legal entity, primarily benefiting this segment.

Equity Sales, Trading and Research Operations

Our research analysts produce reports and studies on the economy; the equity markets; industries and specific companies; investment and portfolio strategies; and regulatory, political, legislative and tax issues. In the past we focused our research on many of the same industries and market segments that were covered by our former lead-managed equity underwriting for corporate issuers and institutional fixed income businesses. We are now focusing our research on companies of interest to our retail and institutional customers, as our research is intended to provide information and advice to investor clients.

We engage in equity securities sales and trading for retail and institutional clients, and participate in underwritings where our research efforts are attractive to non-corporate issuers and lead underwriters. We execute client transactions in equity securities on both an agency and a principal basis in listed and NASDAQ equities and equity options and make a market in approximately 675 NASDAQ securities. Our institutional customer base extends across the U.S., Tokyo, the United Kingdom, and Continental Europe.

Consumer Banking

We conduct consumer banking activities through two subsidiaries, The Prudential Bank and Trust Company, a state chartered bank, and The Prudential Savings Bank, F.S.B., a federally chartered savings bank.

Our principal products are home equity loans and lines of credit, secured lending products, personal trust services and deposits, including money market deposit accounts and certificates of deposit. We have no branches for our consumer banking operations.

Marketing and Distribution

Our Financial Advisor force is the primary sales channel for mutual funds and wrap-fee products, and accordingly, profitability is dependent on our ability to hire, train and retain these Financial Advisors. Most Financial Advisors are licensed to sell our annuity and insurance products. We compensate Financial Advisors with a percentage of the commissions and fees they generate, supplemented by a voluntary equity-market-linked, long-term deferred compensation plan introduced in January 2000.

The following table sets forth information about our retail Financial Advisor force and branch office network as of the dates or for the periods indicated.

	As of or for the Year Ended December 31,		
	2002	2001	2000
Retail Financial Advisors (end of period)	4,377	5,585	6,103
Retail Financial Advisor average client assets (in millions)(1)	$ 44	$ 44	$ 45
Average annual retail Financial Advisor productivity (in thousands)(2)	$ 371	$ 345	$ 412
Retail Branches	258	282	304
Retail Client accounts (in millions)	1.9	2.1	2.2
Retail Client assets, including managed assets (in billions)	$ 220	$ 257	$ 278

(1) Client assets at year-end divided by average number of retail Financial Advisors for the year.
(2) Total non-interest revenues, excluding revenues generated by the consumer bank and the segment's retail fixed income and equity sales and trading operations, divided by average number of retail Financial Advisors for the period.

Retirement

Our Retirement segment manufactures and distributes products and provides administrative services for qualified and non-qualified retirement plans for companies of all sizes. We offer products across the defined contribution market including the 401(a), 401(k), 403(b), 457 and Taft-Hartley markets. We also offer products in the non-qualified retirement market. Additionally, we offer guaranteed products such as guaranteed investment contracts ("GICs"), funding agreements and group annuities for defined contribution plans, defined benefit pension plans, structured settlements and non-qualified entities.

Products

Defined Contribution products

Our primary defined contribution product, PruArray, offers plan sponsors access to more than 500 mutual funds, 45 of which are sponsored by Prudential, with the balance sponsored by more than 25 other mutual fund companies. PruArray also offers stable value investment options. We tailor PruArray to the various defined contribution product markets, as appropriate, and to suit retirement plans of different sizes.

Guaranteed Investment Contracts and Funding Agreements

We offer general account GICs and funding agreements, through which customers deposit funds with us under contracts that typically provide for a specified rate of interest on the amount invested through the maturity of the contract. We are obligated to pay principal and interest according to the contracts' terms. This obligation is backed by our general account assets, and we bear all of the investment and asset/liability management risk on these contracts. As spread products, general account GICs and funding agreements make a profit to the extent that the rate of return on the investments we make with the invested funds exceeds the promised interest rate and our expenses. Since 1998, we have offered our credit-enhanced GIC, which has a triple-A rating, the highest

rating possible, as a result of a guarantee from a financial insurer. We also offer separate account and synthetic GICs, through which we hold customers' funds either in a separate account or in trust outside of our general account for the benefit of the customer. We pass all of the investment results through to the customer, subject to a minimum interest rate, and we do not earn spread income. As fee-based products, separate account and synthetic GICs are less capital intensive and produce lower levels of income than spread products. To the extent that Prudential's asset management units are selected to manage client assets associated with fee-based products, those units also earn investment management fees from those relationships. A limited amount of our in force GIC business is putable to us at the option of the holder prior to the applicable termination dates.

Group Annuities

We offer group annuities primarily to defined benefit plans to provide fixed lifetime benefits for a specified group of plan participants. These annuities are generally single premium annuities that provide for either immediate or deferred payments. We offer fixed payment annuities backed by our general account (spread products) as well as separate account annuities (fee products) that permit a plan sponsor to realize the benefit of investment and actuarial results while receiving a general account guarantee of minimum benefits. We also offer group fixed and variable annuities to individuals taking lump sum distributions from defined contribution plans.

Structured Settlement products

We offer structured settlement products, which are customized annuities used to provide ongoing periodic payments to a claimant in malpractice or personal injury lawsuits instead of a lump sum settlement.

Marketing and Distribution

Historically, defined contribution plans have been sold through Financial Advisors and, to a lesser extent, Prudential Agents. A high concentration of these plans have been in the core and small plan markets, with less than $50 million in plan assets. To increase our market share, we created a distribution network to include over 50 third party distributors including brokers, regional broker-dealers and others. In addition, in 1999 we created a small direct sales force to develop sales among plans with greater than $50 million in plan assets.

Because of downgrades of our claims-paying ratings in the mid-1990s, including as recently as 1998, our ability to sell traditional guaranteed products has been very limited, and we have focused our efforts on our credit-enhanced GICs. Using a small direct sales force, we place most of our traditional, separate account and credit-enhanced GIC business with clients with whom we have an existing relationship.

Underwriting and Pricing

We set our rates for guaranteed products using a proprietary pricing model that considers the investment environment and our risk, expense and profitability assumptions. Upon sale of a product, we adjust the duration of our asset portfolio and lock in the prevailing interest rates. Business unit management continuously monitors cash flow experience and works closely with our Asset Liability and Risk Management Group to review performance and ensure compliance with our investment policy.

Reserves

We establish reserves and policyholder fund liabilities to recognize our future benefit obligations for our products. Our liabilities for our general account GICs and funding agreements represent cumulative contractholder account balances. Our liabilities for our Group Annuities are established based on our own actuarial assumptions. We perform a cash flow analysis in conjunction with determining our reserve for future policy benefits.

Other Asset Management

Our Other Asset Management segment consists of our commercial mortgage securitization operations, our hedge portfolios, and our proprietary investment and syndication activities.

Commercial Mortgage Securitization

We sell commercial mortgages originated by the Investment Management segment, together with other commercial mortgages we may purchase for this purpose, in securitization transactions. We also make interim loans when we expect the loan to lead to a securitization opportunity. As of December 31, 2002, our warehouse balance of mortgages pending securitization and interim loans totaled approximately $0.7 billion.

Hedge Portfolios

In 1998, we started a hedge portfolio that held principal positions in U.S. government and agency securities and hedged them with short positions in similar securities in order to capitalize on our investment management strengths. In December 1999, we began operating a second hedge portfolio, that involved a wider range of security types, including domestic and foreign investment grade corporate bonds, foreign sovereign debt and currency forward contracts.

On July 1, 2002, we launched the Prudential Relative Value Fund I to invite third party clients to participate in these strategies. The fund is managed by our Investment Management segment. We are currently marketing the fund to institutional investors domestically and internationally. Subsequent to the launch of the fund, the two hedge portfolios described above were liquidated. Income on proprietary capital investment in the Prudential Relative Value Fund I is recognized in the Other Asset Management segment.

Proprietary Investments and Syndications

We also make proprietary investments in public and private debt and equity securities, including controlling interests, with the intention to sell or syndicate to investors, including our general account. After sale or syndication, these assets are generally managed by our Investment Management segment.

Beginning on January 1, 2003, the Other Asset Management segment includes a portfolio, with a fair value of $380 million, of primarily real estate related investments previously included in Corporate and Other operations. The portfolio consists of certain of the Company's co-investment interests in funds, operating companies, and other investment vehicles managed by the Investment Management segment. The Other Asset Management segment will provide substantially all future co-investment in these vehicles.

International Insurance and Investments Division

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

International Insurance

Our International Insurance segment manufactures and distributes individual life insurance products to the affluent market in Japan and other foreign markets through Life Planners. In addition, as a result of our acquisition of Gibraltar Life, noted below, we now offer similar products to the broad middle income market across Japan through Life Advisors, the proprietary distribution channel of Gibraltar Life, which we operate separately from our Life Planners. We commenced sales in foreign markets as follows: Japan, 1988; Taiwan, 1990; Italy, 1990; Korea, 1991; Brazil, 1998; Argentina, 1999; the Philippines, 1999; and Poland, 2000. We also have a representative office in China.

We run each country operation on a stand-alone basis with local management and sales teams initially supported by senior International Insurance staff based in Asia and Newark, New Jersey. Each operation has its own marketing, underwriting and claims and investment management functions, with the exception of Japan, for which a large portion of the investment portfolio is managed by our International Investments segment. Each operation invests predominantly in local currency securities, typically bonds issued by the local government or its agencies. In our larger operations, we have more diversified portfolios.

The International Insurance segment includes the operations of Gibraltar Life Insurance Company, Ltd. ("Gibraltar Life"), which was acquired in April 2001. Gibraltar Life, formerly Kyoei Life Insurance Company, Ltd. was acquired for a combination of cash and an extension of credit in the form of a subordinated loan in exchange of 100% of Gibraltar's newly issued common stock.

Products

We currently offer various traditional whole life, term life and endowment policies, which provide for payment on the earlier of death or maturity. We also offer variable life products in Japan and Korea and offer interest-sensitive life products in Japan, Taiwan and Argentina. We also underwrite life reinsurance in Gibraltar Life. Generally, our international insurance products are non-participating and denominated in local currency, with the exception of products in Argentina, which are mostly U.S. dollar denominated, and a limited number of policies in Japan, which are also U.S. dollar denominated. For these dollar denominated products, both premiums and benefits are payable in U.S. dollars.

Marketing and Distribution

The following table sets forth the number of Life Planners and Life Advisors, as well as the number of field managers and agencies for the periods indicated.

	Japan				
	Excluding Gibraltar Life			Gibraltar Life	
	As of December 31,			As of December 31,	
	2002	2001	2000	2002	2001
Number of Life Planners/Life Advisors	2,119	1,992	1,811	5,155	6,121
Number of field managers	325	299	286	620	753
Number of agencies	51	46	41	77	66

	All Other Countries			Total		
	As of December 31,			As of December 31,		
	2002	2001	2000	2002	2001	2000
Number of Life Planners/Life Advisors	2,386	2,112	1,684	9,660	10,225	3,495
Number of field managers	472	491	448	1,417	1,543	734
Number of agencies	101	105	88	229	217	129

Life Planner Model

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

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

The Life Planner's objective is to sell protection-oriented life insurance products on a needs basis to upper middle and upper income customers.

Life Advisors

Our Life Advisors are the proprietary distribution force for products offered by Gibraltar Life. Their focus is to provide individual protection products to the broad middle income market in Japan. In July 2001, we introduced a new compensation plan designed to improve productivity and persistency that is similar to compensation plans in our other International Insurance operations. Life Advisor compensation, which was based on a high fixed salary component in the past, has been changed to a variable compensation structure. We have a transition plan in place that will last, for some agents, until June 2003.

Underwriting and Pricing

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

Pricing of individual life insurance products, particularly in Japan and Korea, is more regulated than in the U.S. In Japan, premiums are different for participating and non-participating products, but within each product type they are generally uniform for all companies. The mortality and morbidity rates and interest rates that we use to calculate premiums are restricted by regulation on the basis of product type. The interest rates do not always reflect the market rates we earn on our investments, and, as a result, we experience negative spreads between the rate we are required to guarantee and the rate we earn on investments. These spreads had a negative impact on the results of our Japanese insurance operations other than Gibraltar Life in 2002 and 2001, and the profitability on our products in Japan from these operations results primarily from margins on mortality, morbidity and expense charges.

Reserves

We establish and carry as liabilities actuarially determined reserves, which we believe will meet our future obligations. We base fixed death benefit reserves on appropriate assumptions for investment yield, persistency, mortality and morbidity rates, expenses and margins for adverse deviation. In Japan, Korea and Argentina, we set reserves for variable and interest-sensitive life products according to premiums collected plus investment results credited less charges.

Reinsurance

International Insurance reinsures portions of its insurance risks with both selected third party reinsurers and Prudential Insurance under reinsurance agreements primarily on a yearly renewable term basis. International Insurance also buys catastrophe reinsurance that covers multiple deaths from a single occurrence in Japan and Taiwan and has a coinsurance agreement with Prudential Insurance for U.S. dollar denominated business in Japan. The catastrophe reinsurance market has tightened considerably since September 11, 2001, resulting in significant increases in premium and additional exclusions from coverage.

International Investments

Our International Investments segment provides private banking, asset management, and investment advice and product choice to high net worth and mass affluent retail clients and to institutional clients in selected international markets. Our private wealth management business offers financial advisory, private banking and asset management services, as well as sales and trading for a wide range of futures and forward contracts, on a global basis, for retail and institutional customers. Our investments business includes manufacturing of proprietary products and distribution of both proprietary and non-proprietary products, all tailored to meet client needs in the target countries.

Our private wealth management business is delivered through our private bank in Geneva and its branch in Monte Carlo, as well as through our private wealth advisors in London and Amsterdam. In addition, this business is conducted in our Asian-based branch offices.

Our futures operations provide advice, sales and trading on a global basis covering a wide variety of commodity, financial and foreign exchange futures and forward contracts, including agricultural commodities, base and precious metals, major currencies, interest rate and stock indices. We conduct these operations through offices in the U.S., Europe and Asia, and we are members of most major futures exchanges. We transact most of our business with institutions. We conduct futures transactions on margin according to the regulations of the different futures exchanges. As with any margin transaction, the risk of credit loss is greater than in cash transactions.

In our international investments business, we invest in asset management and distribution businesses in targeted countries around the world in order to expand our mass affluent customer base outside the U.S. and to increase our global assets under management. Additionally, this segment manages a large portion of the general account investment portfolio of our international insurance operations in Japan.

As a result of a number of recent acquisitions, we own a 50% stake in a private pension fund manager in Mexico and a 50% interest in a German based wholesale distribution company and a Luxembourg-based fund management and administration company.

Corporate and Other Operations

Our Corporate and Other operations include corporate-level activities and international ventures that we do not allocate to our business segments as well as the Prudential Real Estate and Relocation Services operations and certain divested and wind-down businesses, except for our divested businesses that were treated as discontinued operations.

Corporate-Level Activities

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 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 was substantially reduced in 2001 and the remainder liquidated in 2002, and transactions with other segments. Corporate-level activities also include certain obligations, relating to policyholders whom we had previously agreed to provide insurance for reduced or no premium in accordance with contractual settlements related to prior sales practices remediation.

Residential Real Estate Brokerage Franchise and Relocation Services

Prudential Real Estate and Relocation Services is our integrated real estate brokerage franchise and relocation services business. The real estate group markets franchises primarily to existing real estate companies. Our franchise agreements grant the franchisee the right to use the Prudential name and real estate service marks in return for royalty payments on gross commissions generated by the franchisees. The franchises generally are independently owned and operated.

Our relocation group offers institutional clients a variety of services in connection with the relocation of their employees. These services include coordination of appraisal, inspection and sale of relocating employees' homes, equity advances to relocating employees, assistance in locating homes at the relocating employee's destination, household goods moving services, client cost-tracking and a variety of relocation policy and group move consulting services.

Wind-down Businesses

Group Credit Insurance

We ceased issuing new group policies in our group credit insurance operations in 1996. We ceded through assumption reinsurance a significant portion of the single premium business whereby the reinsurer assumes the

role of the direct insurer. We also terminated substantially all of our outstanding balance business in 1997 and 1998. We estimate that a substantial majority of our remaining group credit insurance business will expire by 2006, although the latest policy expiration date is in 2026.

Individual Health

In 1992, we ceased writing individual disability income policies and a year later ceased writing hospital expense and major medical policies due to declining sales and poor financial results. Most of our disability income policies are non-cancelable, which means that we can neither change the premium nor cancel the coverage. The 1997 Health Insurance Portability and Accountability Act guarantees renewal of all hospital and medical expense policies. Under certain circumstances, we are permitted to change the premiums charged for individual health coverage if we can demonstrate that the premiums have not been sufficient to pay claims and expenses. As of July 1, 1999, we reinsured all the disability income policies.

Canadian Operations

We have retained and continue to service several blocks of insurance not sold with our divested Canadian businesses described under "—Divested Businesses—Divested Canadian Businesses" below. A significant portion of the retained business constitutes paid-up individual life insurance.

Divested Businesses

The following operations are businesses that we previously divested but that did not qualify for "discontinued operations" accounting treatment under GAAP. We include the results of these divested businesses in our income from continuing operations, but we exclude these results from our adjusted operating income. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Consolidated Results of Operations" for an explanation of adjusted operating income.

Lead-Managed Equity Underwriting for Corporate Issuers and Institutional Fixed Income Activities of Prudential Securities

In the fourth quarter of 2000, we announced a restructuring of Prudential Securities' activities to implement a fundamental shift in our business strategy. We have exited the lead-managed equity underwriting for corporate issuers and institutional fixed income businesses. The total reduction in staffing from the former lead-managed underwriting and institutional fixed income businesses of Prudential Securities involved approximately 700 positions.

Gibraltar Casualty

In September 2000, we sold all of the stock of Gibraltar Casualty Company, our commercial property and casualty insurer that we had placed in wind-down status in 1985. Gibraltar Casualty's business consisted primarily of surplus and excess lines insurance, including property, casualty, professional liability, and product liability, underwritten for medium to large corporations. As of the date of sale, Gibraltar Casualty's largest continuing exposures were potential liabilities for asbestos and environmental damages. The ultimate liability for asbestos and environmental claims cannot be estimated using traditional reserving techniques due to significant uncertainties. In addition, Gibraltar Casualty faced potential liability arising from claims for latent injury product exposures involving silicone implants, HIV-contaminated blood products and pharmaceutical products. Upon closing of the sale, we entered into an excess of loss agreement with the purchaser under which we will reinsure the purchaser 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 date of the transaction. As of December 31, 2002, $79 million of reserves, generally related to asbestos and environmental exposures, were recorded as part of this agreement.

Divested Canadian Businesses

We previously marketed individual and group life insurance, annuities and group health insurance in Canada through a Canadian branch of Prudential Insurance and through Prudential of America Life Insurance Company, as well as property and casualty insurance through Prudential of America General Insurance Company (Canada) and OTIP/RAEO Benefits Incorporated.

In 1996, we sold substantially all of the Canadian branch's operations and policies in force and all of our Canadian property and casualty operations. Also, in 2000, we sold our interest in Prudential of America Life Insurance Company.

In the sale of the life insurance operations, the purchasers assumed through assumption reinsurance, pursuant to which they assumed our role as insurer, approximately $3 billion of our insurance and annuity liabilities, received an equal amount of investment assets to support the assumed liabilities and purchased substantially all of the Canadian branch's operating assets. Except for the sale of property and casualty, we have indemnified the purchasers for certain liabilities with respect to claims related to sales practices or market conduct issues arising from operations prior to the sale. We retained no policy liabilities with respect to any of the above three sales. While there can be no assurance, we believe we have reserved in all material respects for any contingent liabilities arising from these divested Canadian businesses prior to sale.

Residential First Mortgage Banking

Prior to May 1996, we conducted substantial residential first mortgage banking and related operations through The Prudential Home Mortgage Company, Inc. and its affiliates. Prudential Home Mortgage originated and purchased residential first mortgage loans and generally sold the loans it originated and purchased, through both direct sales and securitizations, while retaining the servicing rights and ongoing servicing fees. We decided to sell Prudential Home Mortgage in 1995 and sold substantially all of the business operations and mortgage loan inventory and approximately two-thirds of the loan servicing rights in 1996. In 1997, we sold substantially all of the remaining loan servicing rights and, since 1996, have sold most of its remaining first mortgage loans, foreclosed properties and other assets.

In 2002, we negotiated a release from future indemnification obligations with Wells Fargo, buyer of the largest portion of the portfolio, related to pre-sale activity. However, we remain liable with respect to certain claims concerning these operations prior to sale, including claims made by borrowers under the loans Prudential Home Mortgage originated or serviced, purchasers of the loans Prudential Home Mortgage sold, investors in the mortgage-backed securities issued in the securitizations and purchasers of the operations and servicing rights. Since the sale of the operations, we were involved in a number of class action lawsuits relating to Prudential Home Mortgage's operations prior to sale. Class certification was denied in the one pending suit and the other was resolved. While we believe that we have adequately reserved in all material respects for the remaining liabilities associated with Prudential Home Mortgage, we may be required to take additional charges that could be material to our results of operations in any particular quarterly or annual period.

Discontinued Operations

Healthcare Business

We sold substantially all of the assets and liabilities of our group managed and indemnity healthcare business to Aetna Inc. in a transaction that closed on August 6, 1999.

We agreed not to re-enter, directly or through acquisitions, the group managed or indemnity healthcare business until August 6, 2004. We also entered into a trademark license agreement that granted Aetna a non-exclusive license to use certain Prudential trademarks in connection with the disposed healthcare business until January 31, 2002, subject to extension in certain circumstances. This agreement has been terminated effective January 1, 2003.

We retained all liabilities associated with litigation that existed at the closing date or commenced within two years of that date (*i.e.,* August 6, 2001) with respect to claims relating to events that occurred prior to the closing date. In addition, we also established reserves in connection with a medical loss ratio agreement (the "MLR Agreement") pursuant to which we were required to make payments to Aetna in the event that the medical loss ratios (i.e. incurred medical expense divided by earned premiums) of the sold businesses were less favorable than levels specified in the MLR Agreement for the years 1999 and 2000. We reduced reserves in 2000 upon completion of the period covered by the MLR Agreement and took into consideration other disposal costs incurred compared to previous estimates. In 2001, we reduced reserves as a result of the final settlement of the MLR Agreement. During 2002, we reduced our reserves as a result of the favorable resolution of certain legal

and regulatory matters. While we believe we are adequately reserved in all material respects for remaining costs and liabilities associated with the healthcare business, taking into account amounts paid and received to date, we may be required to take additional charges that could be material to our results of operations in any particular quarterly or annual period.

European Retail Securities Brokerage Activities

In the fourth quarter of 2002, we discontinued our European retail transaction-oriented stockbrokerage and related activities.

Other

In the third quarter of 2002, we discontinued our web-based business for the workplace distribution of voluntary benefits, which included an impairment of our investment in a vendor of the distribution platform. The results of this business were previously reported in the results of our Corporate and Other operations. In the fourth quarter of 2002, we decided to sell our international venture comprised of our retail broker-dealer operations in Tokyo.

Closed Block Business

As a mutual insurance company, we issued most of our individual life insurance products on a "participating" basis, whereby policyholders are eligible to receive policyholder dividends reflecting experience. These life insurance products were historically included in our former 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 that will be used exclusively for the payment of benefits and policyholder dividends, expenses and taxes with respect to these products, in the Closed Block. We selected the amount 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 the Closed Block to fund payments of all 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 Surplus and Related Assets that we need to hold outside the Closed Block to meet capital requirements related to the products 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 consisted of other traditional insurance products that are not included in the Closed Block. For a discussion of the Closed Block Business, see "—Segregation of the Businesses—Separation of the Financial Services Business and the Closed Block Business."

Historically, the participating products included in the Closed Block have yielded lower returns on capital invested than many of our other businesses. The separation for reporting purposes of the Closed Block Business from our Financial Services Businesses permits us to better identify the results of these businesses. However, the relatively lower returns on traditional participating products will continue to affect our consolidated results of operations for many years.

Our strategy for the Closed Block Business is to maintain the Closed Block as required by our Plan of Reorganization over the time period of its gradual diminishment as policyholder benefits are paid in full. As discussed in Note 10 to the Consolidated Financial Statements, if performance of the Closed Block is more favorable than we originally assumed in funding, we will pay the excess to Closed Block policyholders as additional policyholder dividends, and it will not be available to shareholders.

Prior to the date of demutualization, our Closed Block Policies were included in 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 former Traditional Participating Products segment, including the majority of the net proceeds of the Class B Stock and IHC debt issuances, to the Financial Services Businesses,

representing capital in excess of the amount we believe necessary to support the Closed Block Business. This capital was initially allocated to our Corporate and Other operations in our Financial Services Businesses as of the date of demutualization. Accordingly, results of the Closed Block Business do not include returns on this capital, which were historically included in the results of the former Traditional Participating Products segment. To a minor extent, the former Traditional Participating Products segment included other traditional insurance policies that were not placed in the Closed Block and that are now included in the Individual Life and Annuities segment in our Financial Services Businesses.

See Note 21 to the Consolidated Financial Statements for revenues, income and loss, and total assets of the Closed Block Business.

Intangible and Intellectual Property

We use numerous federal, state and foreign service and trademarks. We believe that the goodwill associated with many of our marks, particularly the word marks "Prudential," "Prudential Financial," "Growing and Protecting Your Wealth," and our "Rock" logo, are significant competitive assets in the U.S. In a number of countries outside North and South America, primarily the United Kingdom, western Europe, and parts of Asia, there are limitations on our use of the "Prudential" name and mark. Where these limitations apply, we combine our "Rock" logo with alternative word marks. We believe that these limitations do not materially affect our ability to operate or expand internationally.

General Account Investments

We maintain a diversified investment portfolio in our insurance companies to support our liabilities to customers in our Financial Services Businesses and the Closed Block Business, as well as our other general liabilities. Our general account does not include assets of our securities brokerage, securities trading, banking operations, assets of our asset management operations managed for third parties, and separate account assets for which the customer assumes risks of ownership.

Management of Investments

We design asset mix strategies for our general account to match the characteristics of our products and other obligations and seek to closely approximate the interest rate sensitivity of the assets with the estimated interest rate sensitivity of the product liabilities. We achieve income objectives through asset/liability management and strategic and tactical asset allocations within a disciplined risk management framework. Our asset allocation also reflects our desire for broad diversification across asset classes, sectors and issuers.

The Investment Committee of our Board of Directors oversees our proprietary investments. It also reviews performance and risk positions quarterly. Our Senior Vice President, Asset Liability and Risk Management, approves the investment policy for the general account assets of our insurance subsidiaries and oversees the investment process for our general account. Under his direction, the Asset Liability and Risk Management Group develops investment objectives, performance factors and measurement and asset allocation ranges.

The Asset Liability and Risk Management Group works closely with each of our business units to ensure that the specific characteristics of our products are incorporated into its processes. The Asset Liability and Risk Management Group has the authority to initiate tactical shifts within exposure ranges approved annually by the Investment Committee. The Investment Management segment manages virtually all of our investments, other than those of our International Insurance segment, under the direction of the Asset Liability and Risk Management Group. Our International Insurance segment manages the majority of its investments locally.

Asset/Liability Management

The Asset Liability and Risk Management Group uses a disciplined, risk-controlled approach to asset/liability management. The methodology focuses on aligning assets to the effective sensitivity of the cash flow and return requirements of our liabilities. The Asset Liability and Risk Management Group consults with the

product experts in the businesses on an ongoing basis to arrive at asset/liability matching policies and decisions. We adjust this dynamic process as products change, as we develop new products and as changes in the market environment occur.

We develop asset strategies for specific classes of product liabilities and attributed or accumulated surplus, each with distinct risk characteristics. We categorize products in the following four classes:

- interest-crediting products for which the rates credited to customers are periodically adjusted to reflect market and competitive forces and actual investment experience, such as fixed annuities;
- participating individual and experience rated group products in which customers participate in actual investment and business results through annual dividends, interest or return of premium;
- guaranteed products for which there are price or rate guarantees for the life of the contract, such as GICs; and
- other products, such as automobile and homeowners insurance.

We determine a target asset mix for each product class which we reflect in our investment policies. Our asset/liability management process has permitted us to manage interest-sensitive products successfully through several market cycles.

Portfolio Composition

General

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

Our total general account investments were $169.1 billion and $150.3 billion as of December 31, 2002 and 2001, respectively, which are segregated for accounting purposes between the Financial Services Businesses and the Closed Block Business. Total general account investments attributable to the Financial Services Businesses were $105.0 billion and $93.8 billion as of December 31, 2002 and 2001, respectively, while total general account investments attributable to the Closed Block Business were $64.1 billion and $56.5 billion as of December 31, 2002 and 2001, respectively. The following table sets forth the composition of the investments of our general account as of the dates indicated.

	As of December 31, 2002			
	Financial Services Businesses	Closed Block Business	Total	% of Total
	($ in millions)			
Fixed Maturities:				
Public, available for sale, at fair value	$ 61,975	$ 30,991	$ 92,966	55.0%
Public, held to maturity, at amortized cost	2,563	—	2,563	1.5
Private, available for sale, at fair value	17,248	15,242	32,490	19.2
Private, held to maturity, at amortized cost	46	—	46	—
Trading account assets, at fair value	96	—	96	0.1
Equity securities, at fair value	1,267	1,521	2,788	1.6
Commercial loans, at book value	11,606	6,987	18,593	11.0
Other long term investments(1)	3,876	1,075	4,951	3.0
Policy loans, at outstanding balance	3,146	5,681	8,827	5.2
Cash collateral for borrowed securities	323	—	323	0.2
Short-term investments	2,841	2,579	5,420	3.2
Total general account investments	104,987	64,076	169,063	100.0%
Invested assets of other entities and operations(2)	14,031	—	14,031	
Total investments	$ 119,018	$ 64,076	$183,094	

	As of December 31, 2001			
	Financial Services Businesses	Closed Block Business	Total	% of Total
	($ in millions)			
Fixed Maturities:				
Public, available for sale, at fair value	$ 51,173	$ 26,634	$ 77,807	51.8%
Public, held to maturity, at amortized cost	318	—	318	0.2
Private, available for sale, at fair value	17,612	14,428	32,040	21.3
Private, held to maturity, at amortized cost	53	—	53	—
Trading account assets, at fair value	112	—	112	0.1
Equity securities, at fair value	1,675	584	2,259	1.5
Commercial loans, at book value	13,070	6,106	19,176	12.8
Other long term investments(1)	4,013	1,082	5,095	3.4
Policy loans, at outstanding balance	2,812	5,758	8,570	5.7
Cash collateral for borrowed securities	—	—	—	—
Short-term investments	2,972	1,882	4,854	3.2
Total general account investments	93,810	56,474	150,284	100.0%
Invested assets of other entities and operations(2)	15,550	—	15,550	
Total investments	$ 109,360	$ 56,474	$165,834	

(1) Other long-term investments consist of real estate and non-real estate related investments in joint ventures and partnerships, investment real estate held through direct ownership, our interest in separate account investments and other miscellaneous investments.

(2) Includes invested assets of securities brokerage, securities trading, and banking operations. Excludes assets of our asset management operations managed for third parties and separate account assets for which the customer assumes risks of ownership.

As of December 31, 2002, our general account investment portfolio attributable to the Financial Services Businesses consisted primarily of $81.8 billion of fixed maturity securities (78% of the total portfolio in 2002 and 74% in 2001), $11.6 billion of commercial loans (11% of the total portfolio in 2002 and 14% in 2001), $1.3 billion of equity securities (1% of the total portfolio in 2002 and 2% in 2001) and $10.3 billion of other investments (10% of the total portfolio in both 2002 and 2001). The commercial loan portfolio consists primarily of $11.6 billion in loans secured mainly by commercial buildings, which are concentrated in the U.S., compared to $13.1 billion in 2001. The equity securities portfolio in 2002 consists of $1.1 billion of publicly traded equity securities and $0.2 billion of private equity securities versus $1.4 billion and $0.3 billion of public and private equity securities, respectively, in 2001. Portfolio growth in fixed maturities was due primarily to the redeployment of excess cash and cash equivalents in our Gibraltar Life operations in Japan, reflecting that company's reorganization concurrent with our acquisition in April 2001. Also contributing to the increase in fixed maturities were the reinvestment of net investment income as well as net market value appreciation.

As of December 31, 2002, our general account investment portfolio attributable to the Closed Block Business consisted primarily of $46.2 billion of fixed maturity securities (72% of the total portfolio in 2002 and 73% in 2001), $7.0 billion of commercial loans (11% of the total portfolio in both 2002 and 2001), $1.5 billion of equity securities (2% of the total portfolio in 2002 and 1% in 2001) and $9.3 billion of other investments (15% of the total portfolio in both 2002 and 2001). The commercial loan portfolio consists primarily of $7.0 billion in loans secured mainly by commercial buildings, which are concentrated in the U.S. compared to $6.1 billion of loans in 2001. The equity securities portfolio in 2002 consists of $1.5 billion of publicly traded equity securities versus $0.6 billion of public equity securities in 2001. Portfolio growth was due primarily to the reinvestment of net investment income and net market value appreciation.

Investment Results

The overall income yield on our general account investments after investment expenses, excluding realized investment gains (losses), was 5.69% for the year ended December 31, 2002 and 5.95% for 2001. The decline in yield on the portfolio in 2002 from 2001 is primarily attributable to reinvestment activities over the last two years in a declining interest rate environment. The overall income yield on the investment portfolio of our Japanese insurance operations for the year ended December 31, 2002 was 1.92% compared to 1.53% for 2001. The increase in yield on the Japanese insurance portfolio in 2002 from 2001 is primarily attributable to the

redeployment of excess cash and cash equivalents, previously held to meet anticipated policyholder surrenders at Gibraltar Life, into fixed maturities. Continuation of the current low interest rate environment will result in our reinvestment of maturing securities at lower rates and would reduce the yield we are able to earn on our investments, which support our obligations for certain products, including traditional whole life insurance, fixed annuities and guaranteed investment contracts. This reduction in yield would also have a corresponding impact on the "spread," the difference between the yield on our investments and the amounts that we are required to pay our customers related to these products, which would have a negative impact on our future profitability.

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

	For the year ended December 31, 2002					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
		($ in millions)				
Fixed maturities	5.21%	$ 3,612	7.33%	$ 2,828	5.96%	$ 6,440
Equity securities	2.54	42	2.48	30	2.52	72
Commercial loans	7.45	880	8.37	528	7.77	1,408
Policy loans	5.85	169	6.50	360	6.28	529
Short-term investments	2.03	200	3.56	112	2.26	312
Other investments	7.01	310	(0.88)	(4)	5.31	306
Investment income before investment expenses	5.29	5,213	7.00	3,854	5.90	9,067
Investment expenses	(.18)	(250)	(.25)	(236)	(.21)	(486)
Investment income after investment expenses	5.11%	4,963	6.75%	3,618	5.69%	8,581
Investment results of other entities and operations(2)		251		—		251
Total investment income		$ 5,214		$ 3,618		$ 8,832

	For the year ended December 31, 2001					
	Financial Services Businesses		Closed Block Business		Combined	
	Yield(1)	Amount	Yield(1)	Amount	Yield(1)	Amount
		($ in millions)				
Fixed maturities	5.64%	$ 3,805	7.82%	$ 3,005	6.46%	$ 6,810
Equity securities	0.77	19	2.76	26	1.29	45
Commercial loans	6.55	761	8.90	634	7.41	1,395
Policy loans	5.81	164	6.44	358	6.22	522
Short-term investments	1.88	248	3.93	202	2.20	450
Other investments	6.55	275	4.77	84	6.17	359
Investment income before investment expenses	5.34	5,272	7.55	4,309	6.16	9,581
Investment expenses	(.17)	(329)	(.27)	(412)	(.21)	(741)
Investment income after investment expenses	5.17%	4,943	7.28%	3,897	5.95%	8,840
Investment result of other entities and operations(2)		298		—		298
Total investment income		$ 5,241		$ 3,897		$ 9,138

(1) Yields are based on average carrying values except for fixed maturities, equity securities and securities lending activity. Yields for fixed maturities are based on amortized cost. Yields for equity securities are based on cost. Yields for securities lending activity are calculated net of corresponding liabilities and rebate expenses. Yields for 2001 are presented on a basis consistent with our current reporting practices including reclassification of investment income among certain categories. Results of Gibraltar Life, which has adopted a November 30 fiscal year end, are included from April 2, 2001, the date of its reorganization, through November 30, 2001 and December 1, 2001 through November 30, 2002.

(2) Investment income of securities brokerage, securities trading, and banking operations.

Fixed Maturity Securities

Investment Mix

These securities include both publicly traded and privately placed debt securities. In our international portfolios our investments are predominantly foreign government securities.

We manage our public portfolio to a risk profile directed by the Asset Liability and Risk Management Group and, in the case of our international insurance subsidiaries, to a profile that reflects local market regulations and our investment competencies in these markets. We seek to employ relative value analysis both in credit selection and in purchasing and selling securities. The total return that we earn on the portfolio will be reflected both as investment income and also as realized gains or losses on investments.

We use our private placement and asset-backed portfolios to enhance the diversification and yield of our overall fixed maturity portfolio. Within our domestic portfolios, we maintain a private fixed income portfolio that is larger than the industry average as a percentage of total fixed income holdings. Our investment staff directly originates approximately half of all of our private placements. Our origination capability offers the opportunity to lead transactions and gives us the opportunity for better terms, including covenants and call protection, and to take advantage of innovative deal structures.

Our fixed maturity securities portfolio consists of public and private fixed maturities across an array of industry categories. As of December 31, 2002, we held approximately 76% of general account investments in fixed maturity securities versus 73% as of December 31, 2001 with a total amortized cost of $120.5 billion and an estimated fair value of $128.1 billion, compared to an amortized cost of $107.7 billion and estimated fair value of $110.2 billion as of December 31, 2001. Our investments in public fixed maturities as of December 31, 2002 were $90.3 billion at amortized cost and $95.6 billion at estimated fair value compared to $76.6 billion at amortized cost and $78.1 billion at estimated fair value as of December 31, 2001. Our investments in private fixed maturities as of December 31, 2002 were $30.2 billion at amortized cost and $32.5 billion at estimated fair value compared to $31.1 billion at amortized cost and $32.1 billion at estimated fair value as of December 31, 2001.

Investments in fixed maturity securities attributable to the Financial Services Businesses were $77.3 billion at amortized cost with an estimated fair value of $81.9 billion as of December 31, 2002 versus $67.6 billion at amortized cost with an estimated fair value of $69.2 billion as of December 31, 2001.

Investments in fixed maturity securities attributable to the Closed Block Business were $43.2 billion at amortized cost with an estimated fair value of $46.2 billion as of December 31, 2002 versus $40.2 billion at amortized cost with an estimated fair value of $41.1 billion as of December 31, 2001.

Fixed Maturity Securities and Unrealized Gains and Losses by Industry Category

The following table sets forth the composition of our total fixed maturity securities portfolio by industry category as of the dates indicated and the associated gross unrealized gains and losses.

	As of December 31,							
	2002				2001			
Industry(1)	Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value	Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value
	(in millions)							
U.S. Government	$ 10,285	$ 883	$ 7	$ 11,161	$ 9,837	$ 260	$ 50	$ 10,047
Manufacturing	21,498	1,561	169	22,890	17,892	582	310	18,164
Utilities	11,036	981	155	11,862	13,446	685	176	13,955
Finance	13,916	938	47	14,807	11,941	453	71	12,323
Services	9,107	719	86	9,740	9,567	322	155	9,734
Mortgage Backed	9,806	346	6	10,146	5,169	164	19	5,314
Foreign Government	21,262	1,320	3	22,579	17,428	337	63	17,702
Retail and Wholesale	5,146	464	51	5,559	4,429	174	60	4,543
Asset-Backed Securities	8,583	204	42	8,745	7,531	181	31	7,681
Transportation	3,206	210	26	3,390	3,448	88	98	3,438
Energy	5,908	614	32	6,490	5,248	254	43	5,459
Other	719	42	5	756	1,805	93	19	1,879
Total	$ 120,472	$ 8,282	$ 629	$ 128,125	$ 107,741	$ 3,593	$ 1,095	$ 110,239

(1) Investment data for 2002 has been classified based on Lehman industry categorizations for domestic public holdings and similar classifications by industry for all other holdings. Prior year data has been reclassified to conform to current year presentation.
(2) Includes $67 million of gross unrealized gains and $7 million of gross unrealized losses at December 31, 2002 compared to $23 million of gross unrealized gains and $2 million of gross unrealized losses at December 31, 2001 on securities classified as held to maturity, which are not reflected in other comprehensive income.

The following table sets forth the composition of the portion of our fixed maturity securities portfolio by industry category attributable to the Financial Services Businesses as of the dates indicated and the associated gross unrealized gains and losses.

	As of December 31,							
	2002				2001			
Industry(1)	Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value	Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value
	(in millions)							
U.S. Government	$ 5,863	$ 437	$ 1	$ 6,299	$ 5,274	$ 137	$ 30	$ 5,381
Manufacturing	12,505	886	86	13,305	10,150	376	168	10,358
Utilities	6,115	527	83	6,559	7,130	434	91	7,473
Finance	8,594	538	34	9,098	7,673	434	62	8,045
Services	4,775	349	46	5,078	4,489	179	87	4,581
Mortgage Backed	4,751	203	3	4,951	1,788	78	4	1,862
Foreign Government	20,375	1,184	1	21,558	16,486	265	55	16,696
Retail and Wholesale	2,533	199	30	2,702	2,030	88	29	2,089
Asset-Backed Securities	5,732	142	30	5,844	5,175	131	24	5,282
Transportation	1,996	128	10	2,114	2,173	49	57	2,165
Energy	3,590	353	25	3,918	4,449	28	8	4,469
Other	446	22	2	466	753	37	14	776
Total	$ 77,275	$ 4,968	$ 351	$ 81,892	$ 67,570	$ 2,236	$ 629	$ 69,177

(1) Investment data for 2002 has been classified based on Lehman industry categorizations for domestic public holdings and similar classifications by industry for all other holdings. Prior year data has been reclassified to conform to current year presentation.
(2) Includes $67 million of gross unrealized gains and $7 million of gross unrealized losses at December 31, 2002 compared to $23 million of gross unrealized gains and $2 million of gross unrealized losses at December 31, 2001 on securities classified as held to maturity, which are not reflected in other comprehensive income.

As a percentage of amortized cost, fixed maturity investments attributable to the Financial Services Businesses as of December 31, 2002 consist primarily of 26% foreign government sector, 16% manufacturing sector, 11% finance sector, 8% utilities sector, and 6% services sector compared to 24% foreign government sector, 15% manufacturing sector, 11% finance sector, 11% utilities sector, and 7% services sector as of December 31, 2001. At December 31, 2002, securities backed by residential mortgage loans made up approximately 6% of fixed maturity investments. Nearly 97% of the mortgage-backed securities in the Financial Services Businesses were publicly traded agency pass-through securities. Collateralized mortgage obligations represented less than 3% of total mortgage-backed securities, and approximately 0.2% of fixed maturities.

The gross unrealized losses related to our fixed maturity portfolio attributable to the Financial Services Businesses were $0.4 billion as of December 31, 2002 compared to $0.6 billion as of December 31, 2001. The gross unrealized losses in 2002 were concentrated primarily in the manufacturing, utilities, and services sectors while gross unrealized losses in 2001 were concentrated in the manufacturing, utilities, services, and finance sectors. Non-investment grade securities represented 51% of the gross unrealized losses attributable to the Financial Services Businesses in 2002 versus 34% of gross unrealized losses in 2001.

The following table sets forth the composition of the portion of our fixed maturity securities portfolio by industry category attributable to the Closed Block Business in total as of the dates indicated and the associated gross unrealized gains and losses.

	As of December 31,							
	2002				2001			
Industry(1)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
U.S. Government	$ 4,422	$ 446	$ 6	$ 4,862	$ 4,563	$ 123	$ 20	$ 4,666
Manufacturing	8,993	675	83	9,585	7,742	206	142	7,806
Utilities	4,921	454	72	5,303	6,316	251	85	6,482
Finance	5,322	400	13	5,709	4,268	19	9	4,278
Services	4,332	370	40	4,662	5,078	143	68	5,153
Mortgage Backed	5,055	143	3	5,195	3,381	86	15	3,452
Foreign Government	887	136	2	1,021	942	72	8	1,006
Retail and Wholesale	2,613	265	21	2,857	2,399	86	31	2,454
Asset-Backed Securities	2,851	62	12	2,901	2,356	50	7	2,399
Transportation	1,210	82	16	1,276	1,275	39	41	1,273
Energy	2,318	261	7	2,572	799	226	35	990
Other	273	20	3	290	1,052	56	5	1,103
Total	$ 43,197	$ 3,314	$ 278	$ 46,233	$ 40,171	$ 1,357	$ 466	$ 41,062

(1) Investment data for 2002 has been classified based on Lehman industry categorizations for domestic public holdings and similar classifications by industry for all other holdings. Prior year data has been reclassified to conform to current year presentation.

As a percentage of amortized cost, fixed maturity investments attributable to the Closed Block Business as of December 31, 2002 consist primarily of 21% manufacturing sector, 12% mortgage backed securities, 12% finance sector, 11% utilities sector, and 10% services sector compared to 19% manufacturing sector, 16% utilities sector, 13% services sector, 11% U.S. government sector, and 11% finance sector as of December 31, 2001. At December 31, 2002, securities backed by residential mortgage loans made up approximately 12% of fixed maturity investments. Nearly 97% of the mortgage-backed securities in the Closed Block Business were publicly traded agency pass-through securities. Collateralized mortgage obligations represented less than 3% of total mortgage-backed securities, and approximately 0.3% of fixed maturities.

The gross unrealized losses related to our fixed maturity portfolio attributable to the Closed Block Business were $0.3 billion as of December 31, 2002 compared to $0.5 billion as of December 31, 2001. The gross unrealized losses as of December 31, 2002 and 2001 were concentrated primarily in the manufacturing, utilities, and services sectors. Non-investment grade securities represented 63% of the gross unrealized losses attributable to the Closed Block Business as of December 31, 2002 versus 38% of gross unrealized losses as of December 31, 2001.

The following tables set forth the breakdown of our fixed maturity securities portfolio in total by contractual maturity as of the dates indicated.

	As of December 31, 2002					
	Financial Services Businesses		Closed Block Business		Total	
	Amortized Cost	% of Total	Amortized Cost	% of Total	Amortized Cost	% of Total
	($ in millions)					
Maturing in 2003	$ 4,122	5.3%	$ 1,940	4.5%	$ 6,062	5.0%
Maturing in 2004	5,195	6.8	2,052	4.8	7,247	6.0
Maturing in 2005	6,546	8.5	2,902	6.7	9,448	7.8
Maturing in 2006	5,173	6.7	2,354	5.5	7,527	6.3
Maturing in 2007	5,704	7.4	2,707	6.3	8,411	7.0
Maturing in 2008	4,642	6.0	2,581	6.0	7,223	6.0
Maturing in 2009	4,858	6.3	2,256	5.2	7,114	5.9
Maturing in 2010	5,027	6.5	2,021	4.6	7,048	5.9
Maturing in 2011	5,471	7.1	2,349	5.4	7,820	6.5
Maturing in 2012 and beyond	30,537	39.4	22,035	51.0	52,572	43.6
Total Fixed Maturities	$ 77,275	100.0%	$ 43,197	100.0%	$ 120,472	100.0%

	As of December 31, 2001					
	Financial Services Businesses		Closed Block Business		Total	
	Amortized Cost	% of Total	Amortized Cost	% of Total	Amortized Cost	% of Total
	($ in millions)					
Maturing in 2002	$ 6,836	10.1%	$ 2,461	6.1%	$ 9,297	8.6%
Maturing in 2003	3,858	5.7	1,897	4.7	5,755	5.3
Maturing in 2004	4,033	6.0	1,854	4.6	5,887	5.5
Maturing in 2005	4,872	7.2	2,156	5.4	7,028	6.5
Maturing in 2006	4,059	6.0	2,407	6.0	6,466	6.0
Maturing in 2007	3,781	5.6	2,049	5.1	5,830	5.4
Maturing in 2008	4,286	6.3	2,623	6.5	6,909	6.4
Maturing in 2009	3,359	5.0	2,001	5.0	5,360	5.0
Maturing in 2010	4,280	6.3	2,037	5.1	6,317	5.9
Maturing in 2011 and beyond	28,206	41.8	20,686	51.5	48,892	45.4
Total Fixed Maturities	$ 67,570	100.0%	$ 40,171	100.0%	$ 107,741	100.0%

Fixed Maturity Securities Credit Quality

The National Association of Insurance Commissioners ("NAIC") evaluates the investments of insurers for regulatory reporting purposes and assigns fixed maturity securities to one of six categories called "NAIC Designations." NAIC designations of "1" or "2" include fixed maturities considered investment grade, which include securities rated Baa3 or higher by Moody's or BBB- or higher by S&P. NAIC Designations of "3" through "6" are referred to as below investment grade, which include securities rated Ba1 or lower by Moody's and BB+ or lower by S&P. The fixed maturity securities designated as NAIC 6 include securities that are not rated.

Non-U.S. dollar denominated investments of our Japanese insurance companies are not subject to NAIC guidelines; however, they are regulated locally by the Financial Services Agency, an agency of the Japanese government. The Financial Services Agency has its own investment quality criteria and risk control standards. Our Japanese insurance companies comply with all of the Financial Services Agency's credit quality review and risk monitoring guidelines. The credit quality ratings of the non-U.S. dollar denominated investments of our Japanese insurance companies are based on ratings assigned by Moody's or rating equivalents based on Japanese government ratings.

The amortized cost of our public and private below-investment grade fixed maturities attributable to the Financial Services Businesses totaled $6.1 billion, or 8%, of the total fixed maturities as of December 31, 2002,

compared to $5.3 billion, or 8%, of total fixed maturities as of December 31, 2001. The increase in the amount of below-investment grade fixed maturities at December 31, 2002 from a year earlier came primarily from negative credit migration over the period.

The amortized cost of our below-investment grade fixed maturities attributable to the Closed Block Business as of December 31, 2002 totaled $6.0 billion, or 14%, of the total fixed maturities on that date, compared to $4.8 billion, or 12%, of total fixed maturities as of December 31, 2001.

Public Fixed Maturities—Credit Quality

The following table sets forth our public fixed maturity portfolios in total by NAIC rating as of the dates indicated.

		As of December 31,							
		2002				2001			
NAIC Designation(1)	Rating Agency Equivalent	Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value	Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value
		(in millions)							
1	Aaa, Aa, A	$ 67,540	$ 4,403	$ 49	$71,894	$ 54,382	$ 1,513	$ 241	$55,654
2	Baa	17,418	1,111	161	18,368	17,543	550	260	17,833
3	Ba	3,626	150	111	3,665	2,910	110	67	2,953
4	B	1,399	53	65	1,387	1,436	61	113	1,384
5	C and lower	240	10	44	206	234	20	15	239
6	In or near default	67	3	2	68	79	1	2	78
	Total Public Fixed Maturities	$ 90,290	$ 5,730	$ 432	$95,588	$ 76,584	$ 2,255	$ 698	$78,141

(1) Reflects equivalent ratings for investments of the international insurance operations that are not rated by U.S. insurance regulatory authorities. Balances as of December 31, 2001 have been reclassified to conform to this presentation.

(2) Includes $66 million of gross unrealized gains and $7 million of gross unrealized losses at December 31, 2002 compared to $18 million of gross unrealized gains and $2 million of gross unrealized losses at December 31, 2001 on securities classified as held to maturity which are not reflected in other comprehensive income.

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

		As of December 31,							
		2002				2001			
NAIC Designation(1)	Rating Agency Equivalent	Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value	Amortized Cost	Gross Unrealized Gains(2)	Gross Unrealized Losses(2)	Fair Value
		(in millions)							
1	Aaa, Aa, A	$ 47,430	$ 2,968	$ 35	$50,363	$ 36,868	$ 950	$ 156	$37,662
2	Baa	11,281	671	110	11,842	11,286	356	158	11,484
3	Ba	1,730	68	56	1,742	1,518	54	38	1,534
4	B	519	20	23	516	683	29	66	646
5	C and lower	94	5	17	82	112	11	7	116
6	In or near default	50	3	1	52	67	—	2	65
	Total Public Fixed Maturities	$ 61,104	$ 3,735	$ 242	$64,597	$ 50,534	$ 1,400	$ 427	$51,507

(1) Reflects equivalent ratings for investments of the international insurance operations that are not rated by U.S. insurance regulatory authorities. Balances as of December 31, 2001 have been reclassified to conform to this presentation.

(2) Includes $66 million of gross unrealized gains and $7 million of gross unrealized losses at December 31, 2002 compared to $18 million of gross unrealized gains and $2 million of gross unrealized losses at December 31, 2001 on securities classified as held to maturity which are not reflected in other comprehensive income.

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

NAIC Designation	Rating Agency Equivalent	As of December 31, 2002 Amortized Cost	2002 Gross Unrealized Gains	2002 Gross Unrealized Losses	2002 Fair Value	As of December 31, 2001 Amortized Cost	2001 Gross Unrealized Gains	2001 Gross Unrealized Losses	2001 Fair Value
		(in millions)							
1	Aaa, Aa, A	$ 20,110	$ 1,435	$ 14	$21,531	$ 17,514	$ 563	$ 85	$17,992
2	Baa	6,137	440	51	6,526	6,257	194	102	6,349
3	Ba	1,896	82	55	1,923	1,392	56	29	1,419
4	B	880	33	42	871	753	32	47	738
5	C and lower	146	5	27	124	122	9	8	123
6	In or near default	17	—	1	16	12	1	—	13
	Total Public Fixed Maturities	$ 29,186	$ 1,995	$ 190	$30,991	$ 26,050	$ 855	$ 271	$26,634

Private Fixed Maturities—Credit Quality

The following table sets forth our private fixed maturity portfolios in total by NAIC rating as of the dates indicated.

NAIC Designation(1)	Rating Agency Equivalent	As of December 31, 2002 Amortized Cost	2002 Gross Unrealized Gains(2)	2002 Gross Unrealized Losses(2)	2002 Fair Value	As of December 31, 2001 Amortized Cost	2001 Gross Unrealized Gains(2)	2001 Gross Unrealized Losses(2)	2001 Fair Value
		(in millions)							
1	Aaa, Aa, A	$ 8,385	$ 856	$ 12	$ 9,229	$ 10,081	$ 557	$ 62	$10,576
2	Baa	15,018	1,401	55	16,364	15,692	600	142	16,150
3	Ba	4,161	222	57	4,326	2,912	112	72	2,952
4	B	1,160	39	28	1,171	1,591	18	84	1,525
5	C and lower	1,185	29	37	1,177	734	36	31	739
6	In or near default	273	5	8	270	147	15	6	156
	Total Private Fixed Maturities	$ 30,182	$ 2,552	$ 197	$32,537	$ 31,157	$ 1,338	$ 397	$32,098

(1) Reflects equivalent ratings for investments of the international insurance operations that are not rated by U.S. insurance regulatory authorities. Balances as of December 31, 2001 have been reclassified to conform to this presentation.

(2) Includes $1 million of gross unrealized gains and $0 million of gross unrealized losses as of December 31, 2002 compared to $5 million of gross unrealized gains and $0 million of gross unrealized losses as of December 31, 2001 on securities classified as held to maturity which are not reflected in other comprehensive income.

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

NAIC Designation(1)	Rating Agency Equivalent	As of December 31, 2002 Amortized Cost	2002 Gross Unrealized Gains(2)	2002 Gross Unrealized Losses(2)	2002 Fair Value	As of December 31, 2001 Amortized Cost	2001 Gross Unrealized Gains(2)	2001 Gross Unrealized Losses(2)	2001 Fair Value
		(in millions)							
1	Aaa, Aa, A	$ 4,945	$ 457	$ 5	$ 5,397	$ 5,990	$ 392	$ 37	$ 6,345
2	Baa	7,519	632	23	8,128	8,148	316	65	8,399
3	Ba	2,275	99	41	2,333	1,493	75	32	1,536
4	B	597	21	13	605	918	13	47	884
5	C and lower	700	20	24	696	390	28	17	401
6	In or near default	135	4	3	136	97	12	4	105
	Total Private Fixed Maturities	$ 16,171	$ 1,233	$ 109	$17,295	$ 17,036	$ 836	$ 202	$17,670

(1) Reflects equivalent ratings for investments of the international insurance operations that are not rated by U.S. insurance regulatory authorities. Balances as of December 31, 2001 have been reclassified to conform to this presentation.

(2) Includes $1 million of gross unrealized gains and $0 million of gross unrealized losses as of December 31, 2002 compared to $5 million of gross unrealized gains and $0 million of gross unrealized losses as of December 31, 2001 on securities classified as held to maturity which are not reflected in other comprehensive income.

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

		As of December 31,							
		2002				2001			
NAIC Designation	Rating Agency Equivalent	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		(in millions)							
1	Aaa, Aa, A	$ 3,440	$ 399	$ 7	$ 3,832	$ 4,091	$ 165	$ 25	$ 4,231
2	Baa	7,499	769	32	8,236	7,544	284	77	7,751
3	Ba	1,886	123	16	1,993	1,419	37	40	1,416
4	B	563	18	15	566	673	5	37	641
5	C and lower	485	9	13	481	344	8	14	338
6	In or near default	138	1	5	134	50	3	2	51
	Total Private Fixed Maturities	$ 14,011	$ 1,319	$ 88	$ 15,242	$ 14,121	$ 502	$ 195	$ 14,428

Unrealized Losses from Fixed Maturity Securities

The following table sets forth the amortized cost and gross unrealized losses of fixed maturity securities where the estimated fair value had declined and remained below amortized cost by 20% or more for the following timeframes:

	As of December 31,			
	2002		2001	
	Amortized Cost	Gross Unrealized Losses	Amortized Cost	Gross Unrealized Losses
	(in millions)			
Less than six months	$ 527	$ 156	$ 663	$ 191
Greater than six months but less than nine months	5	1	8	3
Greater than nine months but less than twelve months	—	—	121	32
Greater than twelve months	—	—	—	—
Total	$ 532	$ 157	$ 792	$ 226

The following table sets forth the amortized cost and gross unrealized losses of fixed maturity securities attributable to the Financial Services Businesses where the estimated fair value had declined and remained below amortized cost by 20% or more for the following timeframes:

	As of December 31,			
	2002		2001	
	Amortized Cost	Gross Unrealized Losses	Amortized Cost	Gross Unrealized Losses
	(in millions)			
Less than six months	$ 242	$ 72	$ 405	$ 120
Greater than six months but less than nine months	4	1	6	2
Greater than nine months but less than twelve months	—	—	74	21
Greater than twelve months	—	—	—	—
Total	$ 246	$ 73	$ 485	$ 143

Gross unrealized losses of fixed maturity securities attributable to the Financial Services Businesses where estimated fair value has been 20% or more below amortized cost were $73 million as of December 31, 2002,

compared to $143 million as of December 31, 2001. The gross unrealized losses in 2002 were primarily concentrated in the utilities, retail and wholesale, and manufacturing sectors while the gross unrealized losses in 2001 were concentrated in the manufacturing, services, and transportation sectors.

The following table sets forth the amortized cost and gross unrealized losses of fixed maturity securities attributable to the Closed Block Business where the estimated fair value had declined and remained below amortized cost by 20% or more for the following timeframes:

	As of December 31,			
	2002		2001	
	Amortized Cost	Gross Unrealized Losses	Amortized Cost	Gross Unrealized Losses
	(in millions)			
Less than six months	$ 285	$ 84	$ 258	$ 71
Greater than six months but less than nine months	1	—	2	1
Greater than nine months but less than twelve months	—	—	47	11
Greater than twelve months	—	—	—	—
Total	$ 286	$ 84	$ 307	$ 83

Gross unrealized losses of fixed maturity securities attributable to the Closed Block Business where estimated fair value has been 20% or more below amortized cost were $84 million as of December 31, 2002 compared to $83 million as of December 31, 2001. The gross unrealized losses in 2002 were primarily concentrated in the manufacturing, utilities, and finance sectors while the gross unrealized losses in 2001 were concentrated in the services, manufacturing, and transportation sectors.

Impairments of Fixed Maturity Securities

Our credit and portfolio management processes help ensure prudent controls over valuation and management of the private portfolio. We have separate pricing and authorization processes to establish “checks and balances” for new investments. We apply consistent standards of credit analysis and due diligence for all transactions, whether they originate through our own in-house origination staff or through agents. Our regional offices closely monitor the portfolios in their regions. We set all valuation standards centrally, and we assess the fair value of all investments quarterly.

We maintain separate monitoring processes for domestic public and private fixed maturities and create watch lists to highlight securities which require special scrutiny and management. Our domestic public fixed maturity asset managers formally review all public fixed maturity holdings on a monthly basis and more frequently when necessary to identify potential credit deterioration whether due to ratings downgrades, unexpected price variances, and/or industry specific concerns. We classify public fixed maturity securities of issuers that have defaulted as securities not in good standing and all other public watch list assets as closely monitored.

Our private fixed maturity asset managers conduct specific servicing tests on each investment on an ongoing basis to determine whether the investment is in compliance or should be placed on the watch list or assigned an early warning classification. We assign early warning classifications to those issuers that have failed a servicing test or experienced a minor covenant default, and we continue to monitor them for improvement or deterioration. In certain situations, the general account benefits from negotiated rate increases or fees resulting from a covenant breach. We assign closely monitored status to those investments that have been recently restructured or for which restructuring is a possibility due to substantial credit deterioration or material covenant defaults. We classify as not in good standing securities of issuers that are in more severe conditions, for example, bankruptcy or payment default.

We classify our fixed maturity securities as either held to maturity or available for sale. Securities classified as held to maturity are those securities where we have the positive intent and ability to hold the securities until maturity. These securities are reflected at amortized cost in our consolidated statement of financial position.

Securities not classified as held to maturity are considered available for sale, and, as a result, we record unrealized gains and losses to the extent that amortized cost is different from estimated fair value. All held to maturity securities and all available for sale securities with unrealized losses are subject to our review to identify other-than-temporary impairments in value. In evaluating whether a decline in value is other-than-temporary, we consider several factors including, but not limited to, the following:

- whether the decline is substantial;
- the duration (generally greater than six months);
- the reasons for the decline in value (credit event or interest rate related);
- our ability and intent to hold our investment for a period of time to allow for a recovery of value; and
- the financial condition of and near-term prospects of the issuer.

When we determine that there is an other-than-temporary impairment, we record a writedown to estimated fair value which reduces the cost basis. The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. Estimated fair values for fixed maturities, other than private placement securities, are based on quoted market prices or prices obtained from independent pricing services. Estimated fair values for private placement fixed maturities are determined primarily by using a discounted cash flow model which considers the current market spreads between the U.S. Treasury yield curve and corporate bond yield curve, adjusted for type of issue, its current credit quality and its remaining average life. The estimated fair value of certain non-performing private placement fixed maturities is based on management's estimates.

Impairments of fixed maturity securities attributable to the Financial Services Businesses totaled $0.4 billion in 2002 and $0.4 billion in 2001. Impairments of fixed maturity securities attributable to the Closed Block Business totaled $0.3 billion in 2002 and $0.4 billion in 2001.

For a further discussion of impairments, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Realized Investment Gains."

Commercial Loans

Investment Mix

We originate commercial mortgages through two sources, both managed out of three regional offices in Atlanta, Chicago and San Francisco. The direct channel, staffed by Prudential investment personnel, originates loans with principal amounts of $20 million and higher. The Pru Express channel uses a network of independent companies to originate loans in the $2 million to $25 million range. All loans are underwritten consistently to Prudential standards using our proprietary rating system that was developed using our experience in real estate and mortgage lending. Our loan portfolio strategy emphasizes diversification by property type and geographic location.

Consumer loans are loans extended by Gibraltar Life to individuals for financing purchases of consumer goods and services and are guaranteed by third party guarantor companies.

We evaluate our commercial loans on a quarterly basis for watch list status based on compliance with various financial ratios and other covenants set forth in the loan agreements, borrower credit quality, property condition and other factors. We may place loans on early warning status in cases where we detect that the physical condition of the property, the financial situation of the borrower or tenant, or other factors could lead to a loss of principal or interest. We classify as closely monitored those loans that have experienced material covenant defaults or substantial credit or collateral deterioration. Not in good standing loans are those for which there is a high probability of loss of principal, such as when the borrower is in bankruptcy or the loan is in foreclosure. In our domestic operations, an experienced staff of workout professionals actively manages the loans in the closely monitored and not in good standing categories. In our international portfolios, we monitor delinquency in consumer loans on a pool basis and evaluate any servicing relationship and guarantees, the same way we do for commercial loans.

As of December 31, 2002, we held approximately 11.0% of our general account investment in commercial loans, down 2% from December 31, 2001. The portfolio as of December 31, 2002, consisted mainly of $13.6 billion of commercial mortgage loans, $3.3 billion of residential and agricultural loans and $2.1 billion of consumer loans compared to $13.1 billion of commercial mortgage loans, $3.5 billion of residential and agricultural loans, and $3.1 billion of consumer loans as of December 31, 2001. These values are gross of a $0.5 billion allowance for losses as of both December 31, 2002 and 2001. The decrease in our commercial loan portfolio was largely attributable to a decrease of $1.5 billion in commercial loans in the Financial Services Businesses, primarily related to sales and maturities of consumer loans in our Japanese insurance operations.

Our loan portfolio strategy emphasizes diversification by property type and geographic location. The following tables set forth the breakdown of the gross carrying values of our commercial loan portfolio by geographic region and property type as of the dates indicated.

	As of December 31, 2002					
	Financial Services Businesses		Closed Block Business		Total	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)					
Commercial loans by region:						
U.S. Regions						
Pacific	$ 2,581	21.5%	$ 2,671	37.8%	$ 5,252	27.5%
South Atlantic	1,625	13.5	1,397	19.8	3,022	15.8
Middle Atlantic	1,519	12.6	1,123	15.9	2,642	13.9
East North Central	847	7.1	442	6.3	1,289	6.8
Mountain	442	3.7	436	6.2	878	4.6
West South Central	558	4.6	322	4.6	880	4.6
West North Central	410	3.4	259	3.7	669	3.5
New England	321	2.7	281	3.9	602	3.2
East South Central	204	1.7	130	1.8	334	1.7
Other	384	3.2	—	—	384	2.0
Subtotal—U.S.	8,891	74.0	7,061	100.0	15,952	83.6
Asia	3,121	26.0	—	—	3,121	16.4
Total Commercial Loans	$ 12,012	100.0%	$ 7,061	100.0%	$ 19,073	100.0%

	As of December 31, 2001					
	Financial Services Businesses		Closed Block Business		Total	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)					
Commercial loans by region:						
U.S. Regions						
Pacific	$ 2,670	19.7%	$ 2,364	38.2%	$ 5,034	25.5%
South Atlantic	1,768	13.1	1,139	18.4	2,907	14.8
Middle Atlantic	1,509	11.2	938	15.2	2,447	12.4
East North Central	954	7.1	437	7.1	1,391	7.1
Mountain	420	3.1	432	7.0	852	4.3
West South Central	594	4.4	349	5.6	943	4.8
West North Central	389	2.9	239	3.9	628	3.2
New England	385	2.8	146	2.4	531	2.7
East South Central	208	1.5	137	2.2	345	1.7
Other	33	0.2	—	—	33	0.2
Subtotal—U.S.	8,930	66.0	6,181	100.0	15,111	76.7
Asia	4,596	34.0	—	—	4,596	23.3
Total Commercial Loans	$ 13,526	100.0%	$ 6,181	100.0%	$ 19,707	100.0%

	As of December 31, 2002					
	Financial Services Businesses		Closed Block Business		Total	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)					
Commercial loans by property type:						
Apartment complexes	$ 2,736	22.8%	$ 1,677	23.8%	$ 4,413	23.1%
Office buildings	1,745	14.5	1,589	22.5	3,334	17.5
Retail stores	1,086	9.1	906	12.8	1,992	10.5
Industrial buildings	1,587	13.2	1,512	21.4	3,099	16.3
Residential properties	1,431	11.9	10	—	1,441	7.6
Agricultural properties	992	8.3	872	12.4	1,864	9.7
Other	305	2.5	495	7.1	800	4.2
Subtotal of collateralized loans	9,882	82.3	7,061	100.0	16,943	88.9
Gibraltar Life uncollateralized loans	2,130	17.7	—	—	2,130	11.1
Total Commercial Loans	$ 12,012	100.0%	$ 7,061	100.0%	$ 19,073	100.0%

	As of December 31, 2001					
	Financial Services Businesses		Closed Block Business		Total	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)					
Commercial loans by property type:						
Apartment complexes	$ 2,839	21.0%	$ 1,370	22.2%	$ 4,209	21.4%
Office buildings	2,120	15.7	1,432	23.1	3,552	18.0
Retail stores	1,162	8.6	894	14.5	2,056	10.4
Industrial buildings	1,351	10.0	1,335	21.6	2,686	13.6
Residential properties	1,615	11.9	14	0.2	1,629	8.3
Agricultural properties	1,037	7.7	871	14.1	1,908	9.7
Other	304	2.2	265	4.3	569	2.9
Subtotal of collateralized loans	10,428	77.1	6,181	100.0	16,609	84.3
Gibraltar Life uncollateralized loans	3,098	22.9	—	—	3,098	15.7
Total Commercial Loans	$ 13,526	100.0%	$ 6,181	100.0%	$ 19,707	100.0%

The following tables set forth the breakdown of our commercial loan portfolio by contractual maturity as of the dates indicated.

	As of December 31, 2002					
	Financial Services Businesses		Closed Block Business		Total	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)					
Maturing in 2003	$ 1,208	10.1%	$ 252	3.6%	$ 1,460	7.7%
Maturing in 2004	1,423	11.8	562	7.9	1,985	10.4
Maturing in 2005	1,216	10.1	399	5.7	1,615	8.5
Maturing in 2006	947	7.9	355	5.0	1,302	6.8
Maturing in 2007	1,201	10.0	639	9.1	1,840	9.7
Maturing in 2008	1,154	9.6	627	8.9	1,781	9.3
Maturing in 2009	1,395	11.6	780	11.1	2,175	11.4
Maturing in 2010	566	4.7	536	7.6	1,102	5.8
Maturing in 2011	292	2.4	525	7.4	817	4.3
Maturing in 2012 and beyond	2,610	21.8	2,386	33.7	4,996	26.1
Total Commercial Loans	$ 12,012	100.0%	$ 7,061	100.0%	$ 19,073	100.0%

	As of December 31, 2001					
	Financial Services Businesses		Closed Block Business		Total	
	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total	Gross Carrying Value	% of Total
	($ in millions)					
Maturing in 2002	$ 2,888	21.3%	$ 112	1.8%	$ 3,000	15.2%
Maturing in 2003	918	6.8	346	5.6	1,264	6.5
Maturing in 2004	1,474	10.9	604	9.8	2,078	10.6
Maturing in 2005	1,121	8.3	421	6.8	1,542	7.8
Maturing in 2006	838	6.2	366	5.9	1,204	6.1
Maturing in 2007	945	7.0	626	10.1	1,571	8.0
Maturing in 2008	1,080	8.0	703	11.4	1,783	9.0
Maturing in 2009	1,231	9.1	545	8.8	1,776	9.0
Maturing in 2010	607	4.5	321	5.2	928	4.7
Maturing in 2011 and beyond	2,424	17.9	2,137	34.6	4,561	23.1
Total Commercial Loans	$ 13,526	100.0%	$ 6,181	100.0%	$ 19,707	100.0%

Commercial Loan Quality

We establish valuation allowances for loans that are determined to be non-performing as a result of our loan review process. We define a non-performing loan as a loan for which it is probable that amounts due according to the contractual terms of the loan agreement will not be collected. Valuation allowances for a non-performing loan are recorded based on present value of expected future cash flows discounted at the loan's effective interest rate or at the fair value of the collateral if the loan is collateral dependent. We record subsequent adjustments to our valuation allowances when appropriate.

The following tables set forth the gross carrying value for commercial loans by loan classification as of the dates indicated:

	As of December 31, 2002		
	Financial Services Businesses	Closed Block Business	Total
	(in millions)		
Performing	$ 11,594	$ 7,031	$18,625
Delinquent, not in foreclosure	310	—	310
Delinquent, in foreclosure	13	5	18
Restructured	95	25	120
Total Commercial Loans	$ 12,012	$ 7,061	$19,073

	As of December 31, 2001		
	Financial Services Businesses	Closed Block Business	Total
	(in millions)		
Performing	$ 13,322	$ 6,156	$19,478
Delinquent, not in foreclosure	36	—	36
Delinquent, in foreclosure	8	—	8
Restructured	160	25	185
Total Commercial Loans	$ 13,526	$ 6,181	$19,707

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

	2002			2001		
	Financial Services Businesses	Closed Block Business	Total	Financial Services Businesses	Closed Block Business	Total
	(in millions)			(in millions)		
Allowance, beginning of year	$ 456	$ 75	$ 531	$ 120	$ 101	$ 221
Allowance on loans acquired from Gibraltar Life	—	—	—	738	—	738
Additions (Release) of allowance for losses	(39)	(1)	(40)	(18)	(5)	(23)
Charge-offs, net of recoveries	(29)	—	(29)	(391)	(21)	(412)
Change in foreign exchange	18	—	18	7	—	7
Allowance, end of year	$ 406	$ 74	$ 480	$ 456	$ 75	$ 531

Equity Securities

Investment Mix

Our equity securities consist principally of investments in common stock of both publicly traded and privately held companies. As of December 31, 2002, we held approximately 2% of general account assets in equity securities, with a cost of $2.8 billion and an estimated fair value of $2.8 billion, compared to 2% as of December 31, 2001 with a cost of $2.2 billion and estimated fair value of $2.3 billion. As of December 31, 2002, our investments in equity securities that are publicly traded comprised approximately 95% of our equity securities at a cost of $2.7 billion and an estimated fair value of $2.6 billion compared to approximately 91% of our equity securities at a cost of $2.0 billion and an estimated fair value of $2.0 billion as of December 31, 2001.

Investments in equity securities attributable to the Financial Services Businesses were $1.3 billion at cost with an estimated fair value of $1.3 billion as of December 31, 2002 versus $1.7 billion at cost with an estimated fair value of $1.7 billion as of December 31, 2001. Our investments in private equity securities as of December 31, 2002 were $0.1 billion at cost and $0.1 billion at estimated fair value compared to $0.2 billion at cost and $0.3 billion at estimated fair value as of December 31, 2001.

Investments in equity securities attributable to the Closed Block Business were $1.5 billion at cost with an estimated fair value of $1.5 billion as of December 31, 2002 versus $0.6 billion at cost with an estimated fair value of $0.6 billion as of December 31, 2001.

Equity Securities and Unrealized Gains and Losses

The following table sets forth the composition of our equity securities portfolio in total and the associated unrealized gains and losses as of the dates indicated:

	As of December 31,							
	2002				2001			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Public equity	$2,697	$ 171	$ 229	$ 2,639	$2,027	$ 113	$ 194	$ 1,946
Private equity	135	15	1	149	212	103	2	313
Total Equity	$2,832	$ 186	$ 230	$ 2,788	$2,239	$ 216	$ 196	$ 2,259

The following table sets forth the composition of our equity securities portfolio attributable to the Financial Services Businesses and the associated unrealized gains and losses as of the dates indicated:

	As of December 31,							
	2002				2001			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Public equity	$1,167	$ 54	$ 96	$ 1,125	$1,466	$ 110	$ 176	$ 1,400
Private equity	128	15	1	142	192	85	2	275
Total Equity	$1,295	$ 69	$ 97	$ 1,267	$1,658	$ 195	$ 178	$ 1,675

The following table sets forth the composition of our equity securities portfolio attributable to the Closed Block Business and the associated unrealized gains and losses as of the dates indicated:

	As of December 31,							
	2002				2001			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair value	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in millions)							
Public equity	$1,530	$ 117	$ 133	$ 1,514	$561	$ 3	$ 18	$ 546
Private equity	7	—	—	7	20	18	—	38
Total Equity	$1,537	$ 117	$ 133	$ 1,521	$581	$ 21	$ 18	$ 584

The gross unrealized losses related to our equity securities portfolio attributable to the Financial Services Businesses were $0.1 billion as of December 31, 2002 compared to $0.2 billion as of December 31, 2001. The gross unrealized losses related to our equity securities portfolio attributable to the Closed Block Business were $0.1 billion as of December 31, 2002 compared to $0.0 billion as of December 31, 2001.

Unrealized Losses from Equity Securities

The following table sets forth the cost and gross unrealized losses of our equity securities where the estimated fair value had declined and remained below cost by 20% or more for the following timeframes:

	As of December 31,			
	2002		2001	
	Cost	Gross Unrealized Losses	Cost	Gross Unrealized Losses
	(in millions)			
Less than six months	$118	$ 37	$196	$ 50
Greater than six months but less than nine months	15	7	43	13
Greater than nine months but less than twelve months	2	1	39	14
Greater than twelve months	—	—	—	—
Total	$135	$ 45	$278	$ 77

The following table sets forth the cost and gross unrealized losses of our equity securities attributable to the Financial Services Businesses where the estimated fair value had declined and remained below cost by 20% or more for the following timeframes:

	As of December 31,			
	2002		2001	
	Cost	Gross Unrealized Losses	Cost	Gross Unrealized Losses
	(in millions)			
Less than six months	$ 33	$ 10	$ 34	$ 11
Greater than six months but less than nine months	5	2	8	3
Greater than nine months but less than twelve months	2	1	7	3
Greater than twelve months	—	—	—	—
Total	$ 40	$ 13	$ 49	$ 17

Gross unrealized losses from the Financial Services Businesses where amortized cost had been 20% or more below estimated fair value were $13 million as of December 31, 2002 compared to $17 million as of December 31, 2001. The gross unrealized losses in 2002 were primarily concentrated in the manufacturing, finance, and energy sectors while the gross unrealized losses in 2001 were concentrated in the services, manufacturing, and energy sectors.

The following table sets forth the cost and gross unrealized losses of our equity securities attributable to the Closed Block Business where the estimated fair value had declined and remained below cost by 20% or more for the following timeframes:

	As of December 31,			
	2002		2001	
	Cost	Gross Unrealized Losses	Cost	Gross Unrealized Losses
	(in millions)			
Less than six months	$ 85	$ 27	$162	$ 39
Greater than six months but less than nine months	10	5	35	10
Greater than nine months but less than twelve months	—	—	32	11
Greater than twelve months	—	—	—	—
Total	$ 95	$ 32	$229	$ 60

Gross unrealized losses from the Closed Block Business where amortized cost had been 20% or more below estimated fair value were $32 million as of December 31, 2002 compared to $60 million as of December 31, 2001. The gross unrealized losses in 2002 were primarily concentrated in the manufacturing, services, and finance sectors while the gross unrealized losses in 2001 were concentrated in the services, finance, and manufacturing sectors.

Impairments of Equity Securities

We classify all of our equity securities as available-for-sale, and, as a result, we record unrealized gains and losses to the extent cost is different from estimated fair value. All securities with unrealized losses are subject to our review to identify other-than-temporary impairments in value. In evaluating whether a decline in value is other-than-temporary, we consider several factors including, but not limited to, the following:

- whether the decline is substantial;
- the duration (generally greater than six months);
- the reasons for the decline in value (credit event or market fluctuation);
- our ability and intent to hold the investment for a period of time to allow for a recovery of value; and
- the financial condition of and near-term prospects of the issuer.

Where we have determined that there is an other-than-temporary impairment, we record a writedown to estimated fair value which adjusts the cost basis. The new cost basis of an impaired security is not adjusted for subsequent increases in fair value. Estimated fair values for publicly traded equity securities are based on quoted market prices or prices obtained from independent pricing services. Fair values for privately traded equity securities are established using valuation and discounted cash flow models that call for a substantial level of judgment from management.

Impairments of equity securities attributable to the Financial Services Businesses totaled $0.2 billion in both 2002 and 2001. Impairments of equity securities attributable to the Closed Block Business totaled $0.1 billion in both 2002 and 2001.

For a further discussion of impairments, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Realized Investment Gains.”

Other Long-Term Investments

"Other long-term investments" include investments in joint ventures and limited partnerships of $1.7 billion in 2002 and 2001. These investments include $0.7 billion in real estate related interests and $1.0 billion in non-real estate related interests in 2002 and 2001. "Other long-term investments" also includes our interests in separate accounts of $0.4 billion and $1.0 billion, investment real estate held through direct ownership of $1.2 billion and $1.1 billion and other miscellaneous investments of $1.7 billion and $1.3 billion in 2002 and 2001, respectively.

"Other long-term investments" attributable to the Financial Services Businesses include investments in joint ventures and limited partnerships of $0.7 billion in 2002 and 2001. These investments include $0.4 billion in real estate related interests and $0.3 billion in non-real estate related interests in 2002 and 2001. "Other long-term investments" also includes our interests in separate accounts of $0.4 billion and $1.0 billion, investment real estate held through direct ownership of $1.2 billion and $1.1 billion and other miscellaneous investments of $1.6 billion and $1.2 billion in 2002 and 2001, respectively.

"Other long-term investments" attributable to the Closed Block Business include investments in joint ventures and limited partnerships of $1.0 billion in 2002 and 2001. These investments include $0.3 billion in real estate related interests and $0.7 billion in non-real estate related interests in 2002 and 2001. "Other long-term investments" also includes our interests in other miscellaneous investments of $0.1 billion in 2002 and 2001.

Ratings

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

The following table summarizes the current ratings from S&P, Moody's, A.M. Best and Fitch for our rated U.S. insurance companies, Prudential Insurance's outstanding rated debt securities, the indebtedness issued through Prudential Financial and Prudential Funding, LLC, and the long-term counterparty rating of Prudential Securities Group Inc. ("PSGI"). Claims-paying ratings represent the opinions of rating agencies regarding the financial ability of an insurance company to meet its obligations under an insurance policy. Credit ratings represent the opinions of rating agencies regarding an entity's ability to repay its indebtedness.

	S&P(1)	Moody's(2)	A.M. Best(3)	Fitch(4)
Insurance Claims-Paying Ratings:				
The Prudential Insurance Company of America	A+	A1	A	AA-
PRUCO Life Insurance Company	A+	A1	A	NR*
PRUCO Life Insurance Company of New Jersey	A+	NR	A	NR
Prudential Property & Casualty Insurance Company	BBB+	A2	A-	NR
The Prudential Property & Casualty Insurance Company of New Jersey	NR	NR	A-	NR
The Prudential Life Insurance Co. Ltd. (Prudential of Japan)	AA-	NR	A+	NR
Gibraltar Life Insurance Company, Ltd.	A	A2	NR	NR
Credit Ratings:				
Prudential Financial, Inc.:				
Short-term borrowings	A2	P2	AMB-1	F1
Long-term senior debt	A-	A3	a-	A
Redeemable Capital Securities	A-	A3	a-	A
The Prudential Insurance Company of America:				
Capital and surplus notes	A-	A3	a-	NR
Prudential Funding, LLC:				
Commercial paper	A1	P1	AMB-1	NR
Long-term senior debt	A+	A2	a	NR
Prudential Securities Group Inc.	BBB	NR	NR	NR

* "NR" indicates not rated.

(1) Standard & Poor's Ratings Group's ("S&P") claims-paying ratings currently range from "AAA (superior)" to "CCC (extremely vulnerable)." These ratings reflect S&P's opinion of an operating insurance company's financial capacity to meet the obligations of its insurance policies in accordance with their terms. According to S&P's publications, "A+" rated insurance companies have strong financial security characteristics, but are somewhat more likely to be affected by adverse business conditions than insurers with higher ratings. The symbol (+) following "A" shows a company's relative standing within the "A" rating category. An insurer rated "AA" has very strong financial security characteristics, differing only slightly from those rated higher. A "+" or "-" indicates relative strength within a category.

An S&P credit 'rating is a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations or a specific financial program. S&P's long-term issue credit ratings range from "AAA (highest rating)" to "D (payment default)." S&P publications indicate that an "A+" rated issue is somewhat more susceptible to the adverse effects of changes in circumstances and economic condition than obligations in higher rated categories; however, the obligor's capacity to meet its financial commitment to the obligation is still strong. S&P short-term ratings range from "A-1 (highest category)" to "D (payment default)." Within the A-1 category some obligations are designated with a plus sign (+) indicating that the obligor's capacity to meet its financial commitment on the obligation is extremely strong.

(2) Moody's Investors Service, Inc.'s ("Moody's") insurance claims-paying ratings (sometimes referred to as "financial strength" ratings) currently range from "Aaa (exceptional)" to "C (lowest rated)." Moody's insurance ratings reflect the ability of insurance companies to repay punctually senior policy-holder claims and obligations. Moody's indicates that "A1" rated insurance companies offer good financial security, but elements may be present which suggest a susceptibility to impairment sometimes in the future. Numeric modifiers are used to refer to the ranking within the group—with 1 being the highest and 3 being the lowest. However, the financial strength of companies within a generic rating symbol ("A" for example) is broadly the same.
Moody's credit ratings currently range from "Aaa (best quality)" to "C (lowest rated)." Moody's credit ratings grade debt according to its investment quality. Moody's considers "A2" and "A3" rated debt to be upper medium grade obligations, and that while factors giving security to principal and interest are considered adequate, elements may be present that suggest a susceptibility to impairment sometime in the future.

Moody's short-term ratings are opinions of the ability of issuers to honor senior financial obligations and contracts. Prime ratings range from "Prime-1" (P-1), which represents a superior ability for repayment of senior short-term debt obligations, to "Prime-1" (P-3), which represents an acceptable ability for repayment of such obligations. Issuers rated "Not Prime" do not fall within any of the Prime rating categories.

(3) A.M. Best Company's ("A.M. Best") claims-paying ratings for insurance companies currently range from "A++ (superior)" to "F (in liquidation)." A.M. Best's ratings reflect its opinion of an insurance company's financial strength, operating performance and ability to meet its obligations to policyholders. A.M. Best considers "A" and "A-" rated companies to have a strong ability to meet their ongoing obligations to policyholders.

An A.M. Best long-term credit rating is an opinion of the capacity and willingness of an obligor to pay interest and principal in accordance with the terms of the obligation. A.M. Best long-term credit ratings range from "aaa (exceptional)" to "d (in default)," with ratings from "aaa" to "bbb" considered as investment grade. A rating of "a" is assigned to issuers that possess a low level of credit risk and a strong capacity to meet the terms of the obligation.
An A.M. Best short-term credit rating reflects an opinion of the issuer's fundamental credit quality. Ratings range from "AMB-1+," which represents an exceptional ability to repay short-term debt obligations, to "AMB-4," which correlates with a speculative ("bb") long-term rating.

(4) Fitch Ratings' ("Fitch") claims-paying ratings (sometimes referred to as "financial strength" ratings) currently range from "AAA (negligible risk factors)" to "DD (company is under an order of liquidation)." Fitch's ratings reflect its assessment of the likelihood of timely payment of policyholder and contractholder obligations. According to Fitch, "AA-" companies have very high claims-paying ability, strong protection factors and modest risk which may vary slightly over time due to economic and/or underwriting conditions.

Fitch long-term ratings currently range from "AAA (highest credit quality)," which denotes exceptionally strong capacity for timely payment of financial commitments, to "D (default)." Investment grade ratings range between "AAA" and "BBB." Short-term ratings range from "F1 (highest credit quality)" to "C (high default risk)." Within long-term and short-term ratings, a "+" or a "–" may be appended to a rating to denote relative status with major rating categories.

The ratings set forth above with respect to Prudential Financial, Prudential Insurance and our other insurance and financing subsidiaries reflect current opinions of each rating organization with respect to claims-paying ability, financial strength, operating performance and ability to meet obligations to policyholders or debt holders, as the case may be. These ratings are of concern to policyholders, agents and intermediaries. They are not directed toward stockholders and do not in any way reflect evaluations of the safety and security of the Common Stock. A downgrade in our claims-paying or credit ratings could limit our ability to market products, increase the number or value of policies being surrendered and/or hurt our relationships with creditors or trading counterparties. Our claims-paying ratings are an important factor affecting public confidence in most of our products and, as a result, our competitiveness. The interest rates we pay on our borrowings are largely dependent on our credit ratings.

In December 2002, Moody's changed its outlook to negative from stable on the long-term debt rating of Prudential Financial. The negative outlook was primarily based on the continuing weakness of the financial performance of both Prudential Securities and our property and casualty insurance business. This action followed Prudential Financial's announcement of the signing of a definitive agreement to acquire Skandia U.S.

In January 2003, A.M. Best placed the A- insurance claims-paying rating of the Prudential Property and Casualty Insurance Company under review with negative implications.

Competition

In each of our businesses we face intense competition from domestic and foreign insurance companies, asset managers, investment banks and diversified financial institutions. Many of our competitors are large and well-capitalized and some have higher claims-paying or credit ratings than we do. We compete in our businesses generally on the basis of price, quality of service, scope of distribution, quality of products and brand recognition. The relative importance of these factors depends on the particular product in question.

In recent years, there has been substantial consolidation and convergence among companies in the financial services industry, particularly as the U.S. laws separating banking and insurance have been relaxed, resulting in increased competition from large, well-capitalized financial services firms. In particular, a number of large commercial banks, insurance companies and other broad-based financial services firms have established or acquired other financial services businesses such as a broker-dealer or an insurance company. Many of these firms also have been able to increase their distribution systems through mergers or contractual arrangements. We expect consolidation to continue and perhaps accelerate. We expect that the Gramm-Leach-Bliley Act, which was adopted on November 11, 1999, will contribute to consolidation by liberalizing restrictions on affiliation of banks with insurance companies and other financial institutions and on activities of bank affiliates with respect to mutual funds, private equity investments and other activities. While we are among the largest competitors in terms of market share in many of our business lines, in some cases there are one or more dominant market players in a particular line of business. The trend toward consolidation in the financial services industry may result in competitors with increased market shares, or the introduction of larger or financially stronger competitors through acquisitions or otherwise, in those or other lines of business in which we compete.

Our investment-linked insurance products and our Investment Management and Advisory Services and Retail Investments segments also compete on the basis of investment performance. A material decline in the investment performance of our variable life, mutual fund, variable annuity or defined contribution products could have an adverse effect on our sales. Rankings and ratings of investment performance have a significant effect on our ability to increase our assets under management.

In recent years our rankings against competitors in sales of certain investment and insurance products have declined. We continue our efforts to strengthen and broaden both our distribution channels and our product offerings but we cannot assure they will be successful. In particular, the marketplace may make a more significant or rapid shift to non-affiliated and direct distribution alternatives than we anticipate or are able to achieve ourselves. If this happens, our market share and results of operations could be adversely affected.

Competition for personnel in all of our businesses is intense, including for Prudential Agents, Financial Advisors and other captive sales personnel, and our investment managers. In the ordinary course of business, we lose from time to time personnel in whom we have invested significant training, and in the recent past we have in particular lost some of our most experienced Financial Advisors. We are focusing substantial efforts on refocusing our Prudential Agents, on increasing productivity requirements for Prudential Agents and on reducing turnover among Financial Advisors. The loss of key investment managers could have a material adverse effect on our Investment Management and Advisory Services segment. Our decision to exit the lead-managed equity underwriting for corporate issuers and institutional fixed income businesses of Prudential Securities, and to pursue our strategy of providing research of interest to our investor clients is new, and its effect on our ability to attract and retain Financial Advisors and research analysts is uncertain.

Many of our businesses are in industries where access to multiple sales channels may be a competitive advantage. We believe that insurance and investment products will continue to be sold primarily through face-to-face sales channels, although customers' desire for objective and not product-related advice will, over time,

increase the amount of insurance and investment products sold through non-affiliated distributors such as independent agents, insurance brokers and investment advisors. In addition, we expect that insurance and investment products will increasingly be sold through direct marketing, including through electronic commerce.

The proliferation and growth of multiple sales channels puts pressure on our face-to-face sales channels to either increase their productivity or reduce their costs. We continue our efforts to strengthen and broaden our sales channels, but we cannot assure they will be successful. We run the risk that the marketplace will make a more significant or rapid shift to non-affiliated and direct distribution alternatives than we anticipate or are able to achieve ourselves. If this happens, our market share and results of operations could be adversely affected.

Our current claims-paying ratings have substantially reduced our ability to sell traditional guaranteed products. A downgrade in our claims-paying ratings could adversely affect our ability to sell our insurance products and reduce our profitability.

Our international life insurance business, other than Gibraltar Life, competes by focusing on a limited market using our Life Planner model to offer high quality service and needs-based protection products. Certain competitors, including Sony Life in Japan, employ or seek to employ versions of the Life Planner model.

Regulation

Overview

Our businesses are subject to comprehensive regulation and supervision primarily as follows:

Insurance Operations

State insurance laws regulate all aspects of our insurance businesses and state insurance departments in the fifty states, the District of Columbia and various U.S. territories and possessions supervise our insurance operations. Prudential Insurance is organized in New Jersey and its principal insurance regulatory authority is the New Jersey Department of Banking and Insurance. Our other insurance companies are principally regulated by the insurance departments of the states in which they are organized. Our international insurance operations are principally regulated by non-U.S. insurance regulatory authorities in the jurisdiction in which they operate, including the Japanese Ministry of Finance and Financial Services Agency. Our insurance products are substantially affected by federal, state and non-U.S. tax laws. Products that also constitute “securities”, such as variable life insurance and variable annuities, are also subject to federal and state securities laws and regulations. The SEC, the NASD, state securities commissions and non-U.S. authorities regulate and supervise these products.

Asset Management Operations

Our investment products and services, including mutual funds and private banking activities, are subject to federal, state and non-U.S. securities, fiduciary, including ERISA, and other laws and regulations. The SEC, the NASD, state securities commissions, the Department of Labor and similar non-U.S. authorities, including the United Kingdom’s Financial Services Authority (“FSA”), are the principal regulators that regulate our asset management operations. Federal, state and non-U.S. tax laws also substantially affect our investment products and services.

Securities Operations

Our securities operations, principally conducted by Prudential Securities Incorporated and a number of other SEC-registered broker-dealers and non-U.S. broker-dealers, are subject to federal, state and non-U.S. securities, commodities and related laws. The SEC, the CFTC, state securities authorities, the NYSE, the NASD and similar U.S. and non-U.S. authorities, including the FSA, are the principal regulators of our securities operations.

The purpose of these regulations is primarily to protect our customers and not our shareholders. Many of the laws and regulations to which we are subject are regularly re-examined, and existing or future laws and regulations may become more restrictive or otherwise adversely affect our operations. U.S. law and regulation of our international business, particularly as it relates to monitoring customer activities, is likely to increase as a result of the recent terrorist activity in the U.S. and abroad and may affect our ability to attract and retain customers. The summary below is of U.S. regulation. Our international operations are subject to similar types of regulation in the jurisdictions in which they operate.

Our international operations face political, legal, operational and other risks that we do not face in our U.S. operations, including the risk of discriminatory regulation, nationalization or expropriation of assets, price controls and exchange controls or other restrictions that prevent us from transferring funds from these operations out of the countries in which they operate or converting local currencies we hold into U.S. dollars or other currencies.

Regulation Affecting Prudential Financial

Prudential Financial is the holding company for all of our operations. Prudential Financial itself is not licensed as an insurer, investment advisor, broker-dealer, bank or other regulated entity. However, because it owns regulated entities, Prudential Financial is subject to regulation as an insurance holding company and a savings and loan holding company.

Insurance Holding Company Regulation

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

Acquisition of Control

Under the New Jersey statute governing the demutualization and the Plan of Reorganization, for the three years after the date of demutualization, no person, other than Prudential Financial, its subsidiaries or any employee benefit plans or trusts sponsored by us, may offer to acquire 5% or more of Prudential Financial's Common Stock or total voting power without the prior approval of the New Jersey insurance regulator. Under this statute, the New Jersey insurance regulator may not approve the acquisition unless he or she determines, among other things, that:

- the acquisition would not frustrate the Plan of Reorganization;
- either Prudential Financial's Board of Directors has approved the acquisition or extraordinary circumstances that the Plan of Reorganization did not contemplate have arisen that justify their approval of the acquisition; and
- the acquisition would be in the interests of our policyholders.

The New Jersey statute governing the demutualization provides that any security that is subject to an agreement regarding acquisition or that is acquired or to be acquired in violation of the statute or in violation of an order of the New Jersey insurance regulator may not be voted at any shareholders' meeting, and any action of

shareholders requiring the affirmative vote of a percentage of shares may be taken as though these securities were not issued and outstanding. If these securities are voted, however, any action taken at a shareholders' meeting will be valid unless it materially affects control of Prudential Financial or unless a New Jersey court has otherwise ordered.

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

In addition, many state insurance laws require prior notification of state insurance departments of a change in control of a non-domiciliary insurance company doing business in that state. While these prenotification statutes do not authorize the state insurance departments to disapprove the change in control, they authorize regulatory action in the affected state if particular conditions exist such as undue market concentration. Any future transactions that would constitute a change in control of Prudential Financial may require prior notification in those states that have adopted preacquisition notification laws.

These laws may discourage potential acquisition proposals and may delay, deter or prevent a change of control of Prudential Financial, including through transactions, and in particular unsolicited transactions, that some or all of the stockholders of Prudential Financial might consider to be desirable.

Bank and Savings and Loan Holding Company Regulation

Although The Prudential Bank and Trust Company is a "bank" as defined in the Bank Holding Company Act of 1956, Prudential Financial is exempted from regulation as a bank holding company under federal law as long as we continue to comply with certain restrictions. As a result of its ownership of The Prudential Savings Bank, F.S.B., Prudential Financial is a savings and loan holding company. Federal and state banking laws generally provide that no person may acquire control of Prudential Financial, and gain indirect control of The Prudential Bank and Trust Company, The Prudential Savings Bank, F.S.B. or Prudential Trust Company, without prior regulatory approval. Generally, beneficial ownership of 10% or more of the voting securities of Prudential Financial would be presumed to constitute control.

Insurance Operations

State Insurance Regulation

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

- licensing to transact business,
- licensing agents,
- admittance of assets to statutory surplus,
- regulating premium rates,
- approving policy forms,
- regulating unfair trade and claims practices,
- establishing reserve requirements and solvency standards,
- fixing maximum interest rates on life insurance policy loans and minimum accumulation or surrender values, and

- regulating the type, amounts and valuations of investments permitted and other matters.

State insurance laws and regulations require our insurance companies to file financial statements with insurance departments everywhere they do business, and the operations of our insurance companies and accounts are subject to examination by those departments at any time. Our insurance companies prepare statutory financial statements in accordance with accounting practices and procedures prescribed or permitted by these departments.

State insurance departments conduct periodic examinations of the books and records, financial reporting, policy filings and market conduct of insurance companies domiciled in their states, generally once every three to five years. Examinations are generally carried out in cooperation with the insurance departments of other states under guidelines promulgated by the NAIC. The New Jersey insurance regulator completed a financial examination of Prudential Insurance and its indirect insurance subsidiary, PRUCO Life Insurance Company of New Jersey, for each of the previous five years for the period ended December 31, 1996, and found no material deficiencies.

Financial Regulation

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

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

The NAIC approved a series of statutory accounting principles which have been adopted, in some cases with modifications, by all state insurance regulators. The measurement of statutory capital under these principles has resulted in an increase in our RBC ratios.

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

Insurance Reserves. State insurance laws require us to analyze the adequacy of our reserves annually. Our actuary must submit an opinion that our reserves, when considered in light of the assets we hold with respect to those reserves, make adequate provision for our contractual obligations and related expenses.

The NAIC has adopted a model regulation called "Valuation of Life Insurance Policies Model Regulation" that establishes new minimum statutory reserve requirements for individual life insurance policies written after the effective date of the regulation. These reserve standards have been enacted by most of the states, generally with a January 1, 2000 effective date. As a result, insurers selling some individual life insurance products such as term life insurance with guaranteed premium periods have adjusted reserves and/or shortened guarantee periods. While the model regulation has been enacted by the states in which we have domestic companies, the enactment of the regulation has not had a material impact on us. The NAIC is currently considering revisions to this regulation, but we do not expect the revisions to have a material impact on us.

Market Conduct Regulation

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

Property and Casualty Regulation

Our 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. When a state restricts underwriting, pricing and profits, as is the case for automobile insurance in New Jersey, an insurer's ability to operate profitably on a consistent basis may be affected. In New Jersey, if the profit earned on automobile insurance over a three-year period exceeds the amount determined under insurance regulations, the insurer must provide a refund or credit to policyholders.

State insurance laws and regulations require us to participate in mandatory property-liability "shared market," "pooling" or similar arrangements that provide insurance coverage to individuals or others who otherwise are unable to purchase coverage voluntarily provided by private insurers. Shared market mechanisms include assigned risk plans; fair access to insurance requirement or "FAIR" plans; and reinsurance facilities, such as the New Jersey Unsatisfied Claim and Judgment Fund, the Florida Hurricane Catastrophe Fund, the Michigan Catastrophic Claims Association, and the California Earthquake Authority. In addition, some states require insurers to participate in reinsurance pools for claims that exceed specified amounts. Our participation in these mandatory shared market or pooling mechanisms generally is related to the amounts of our direct writings for the type of coverage written by the specific arrangement in the applicable state. We cannot predict the financial impact of our participation in these arrangements.

Insurance Guaranty Association Assessments

Each state has insurance guaranty association laws under which life and property and casualty insurers doing business in the state may be assessed by state insurance guaranty associations for certain obligations of insolvent insurance companies to policyholders and claimants. Typically, states assess each member insurer in an amount related to the member insurer's proportionate share of the business written by all member insurers in the state. For the years ended December 31, 2002 and 2001, and 2000, we paid approximately $1.6 million, $2.1 million, and $8.5 million, respectively, in assessments pursuant to state insurance guaranty association laws. While we cannot predict the amount and timing of any future assessments on our insurance companies under these laws, we have established reserves that we believe are adequate for assessments relating to insurance companies that are currently subject to insolvency proceedings.

Federal Regulation

Our variable life insurance products, as well as our variable annuity and mutual fund products, generally are securities within the meaning of federal and state securities laws, are registered under the Securities Act of 1933 and are subject to regulation by the SEC, the NASD and state securities commissions. Federal and state securities regulation similar to that discussed below under "—Asset Management Operations" and "—Securities Operations" affect investment advice, sales and related activities with respect to these products. In addition, although the federal government does not comprehensively regulate the business of insurance, federal legislation and administrative policies in several areas, including taxation, financial services regulation and pension and welfare benefits regulation, can significantly affect the insurance industry. Congress also periodically considers and is considering laws affecting privacy of information and genetic testing that could significantly and adversely affect the insurance industry.

Tax Legislation

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

as well as other types of changes that could reduce or eliminate the attractiveness of annuities and life insurance products to consumers.

In June 2001, the Economic Growth and Tax Relief Reconciliation Act of 2001 (the "2001 Act") was enacted. The 2001 Act contains provisions that will, over time, significantly lower individual tax rates. This will have the effect of reducing the benefits of tax deferral on the build-up of value of annuities and life insurance products. The 2001 Act also includes provisions that will eliminate, over time, the estate, gift and generation-skipping taxes and partially eliminates the step-up in basis rule applicable to property held in a decedent's estate. Some of these changes might hinder our sales and result in the increased surrender of insurance and annuity products.

In January 2003, the Bush Administration made several tax proposals that, if enacted by Congress, might also hinder our sales and result in the increased surrender of insurance and annuity products. First, the Administration proposed to accelerate the above tax rate reductions. Second, the Administration proposed to eliminate the taxation of dividends paid by corporations to the extent paid out of previously taxed corporate earnings and to provide a step-up in basis in the shares of a corporation to the extent previously taxed corporate earnings are not distributed to shareholders. As proposed, however, these benefits would not apply to corporate shares held through insurance, annuity and tax-qualified retirement products. If this proposal is not extended to corporate shares held through insurance, annuity and tax-qualified retirement products, and the proposal is ultimately enacted by Congress, the sale of our products may be adversely affected and result in the increased surrender of such products. Third, the Administration also proposed several tax- favored savings initiatives that, if enacted by Congress, could also adversely affect the sale of our annuity, life and tax-qualified retirement products and increase the surrender of such products.

ERISA

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

USA Patriot Act

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

Asset Management Operations

Some of our separate accounts, mutual funds and other pooled investments, in addition to being registered under the Securities Act of 1933, are registered as investment companies under the Investment Company Act of

1940, and the shares of certain of these entities are qualified for sale in some states and the District of Columbia. We also have several subsidiaries that are registered as broker-dealers under the Securities Exchange Act of 1934 ("Exchange Act") and are subject to federal and state regulation, including but not limited to the SEC's net capital rules. In addition, we have several subsidiaries that are investment advisors registered under the Investment Advisers Act of 1940. Our Prudential Agents and other employees, insofar as they sell products that are securities, as well as our Financial Advisors, are subject to the Exchange Act and to examination requirements and regulation by the SEC, the NASD and state securities commissioners. Regulation also extends to various Prudential entities that employ or control those individuals.

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

Securities Operations

Prudential Securities Incorporated and a number of our other subsidiaries are registered as broker-dealers with the SEC and with some or all of the 50 states and the District of Columbia. Prudential Securities and a number of our other subsidiaries are also registered as investment advisors with the SEC. Prudential Securities and its broker-dealer affiliates are members of, and are subject to regulation by "self-regulatory organizations," including the NASD and the NYSE. Many of these self-regulatory organizations conduct examinations of and have adopted rules governing their member broker-dealers. In addition, state securities and certain other regulators have regulatory and oversight authority over our registered broker-dealers. We are also subject to the rules of the Municipal Securities Rulemaking Board in our municipal activities. Our Financial Advisors are also subject to regulation under the Exchange Act as described above under "—Asset Management Operations."

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

The commodity futures and commodity options industry in the U.S. is subject to regulation under the Commodity Exchange Act. The CFTC is the federal agency charged with the administration of the Commodity Exchange Act and the regulations adopted under the act. Prudential Securities Incorporated and a number of our other subsidiaries are registered with the CFTC as futures commission merchants, commodity pool operators or commodity trading advisors. Our futures business is also regulated in the U.S. by the National Futures Association.

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

As registered broker-dealers and members of various self-regulatory organizations, Prudential Securities Incorporated and our U.S. other registered broker-dealer subsidiaries are subject to the SEC's Uniform Net Capital Rule. The Uniform Net Capital Rule sets the minimum level of net capital a broker-dealer must maintain and also requires that at least a minimum part of a broker-dealer's assets be kept in relatively liquid form. These net capital requirements are designed to measure the financial soundness and liquidity of broker-dealers. Prudential Securities Incorporated is also subject to the net capital requirements of the CFTC and the various securities and commodities exchanges of which it is a member. Compliance with the net capital requirements could limit those operations that require the intensive use of capital, such as underwriting and trading activities, and may limit the ability of these subsidiaries to pay dividends to Prudential Financial. As of December 31, 2002, Prudential Securities Incorporated's regulatory net capital was well in excess of the required amount.

Margin lending by certain of our broker-dealer subsidiaries is subject to the margin rules of the Federal Reserve Board, which limit the amount they may lend when customers are buying securities. These subsidiaries are also required by NYSE rules to impose maintenance requirements on the values of securities contained in margin accounts.

Other Businesses

Our domestic banking operations are subject to extensive federal and state regulation, including examination and review by state authorities of consumer finance offices. Prudential provides trust services through Prudential Trust Company, a state-chartered trust company incorporated under the laws of the Commonwealth of Pennsylvania, The Prudential Bank and Trust Company, and The Prudential Savings Bank, F.S.B. Our non-U.S. banking operations are subject to banking and securities regulation in the jurisdictions in which they are doing business. The sale of real estate franchises by our real estate brokerage franchise operation is regulated by various state laws and the FTC. The federal Real Estate Settlement Procedures Act and state real estate brokerage and unfair trade practice laws regulate payments among participants in the sale or financing of residences or the provision of settlement services such as mortgages, homeowners insurance and title insurance.

Privacy of Customer Information

Federal and state law and regulation require financial institutions to protect the security and confidentiality of customer information and to notify customers about their policies and practices relating to their collection and disclosure of customer information and their policies relating to protecting the security and confidentiality of that information. Federal and state laws also regulate disclosures of customer information. Congress and state legislatures are expected to consider additional regulation relating to privacy and other aspects of customer information.

Environmental Considerations

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

We routinely conduct environmental assessments for real estate we acquire for investment and before taking title through foreclosure to real property collateralizing mortgages that we hold. Although unexpected environmental liabilities can always arise, based on these environmental assessments and compliance with our internal procedures, we believe that any costs associated with compliance with environmental laws and regulations or any clean-up of properties would not have a material adverse effect on our results of operations.

Employees

As of December 31, 2002, we employed 54,086 employees. We believe our relations with our employees are satisfactory.

Available Information

You may access our press releases, financial information and reports filed with the Securities and Exchange Commission (for example, our Annual Report on Form 10-K, our Quarterly Reports of Form 10-Q and our Current Reports on Form 8-K and any amendments to those Forms) online at www.investor.prudential.com. Copies of any documents on our website are available without charge, and reports filed or furnished to the Securities and Exchange Commission will be available as soon as reasonably practicable after they are filed with or furnished to the Commission.

ITEM 1A. EXECUTIVE OFFICERS

The names of the executive officers of Prudential Financial and their respective ages and positions, as of March 8, 2003, were as follows:

Name	Age	Title	Other Directorships
Arthur F. Ryan	60	Chairman, Chief Executive Officer and President	Regeneron Pharmaceuticals, Inc.
Vivian L. Banta	52	Vice Chairman	None
Mark B. Grier	50	Vice Chairman	Annuity and Life Re (Holdings), Ltd.
Rodger A. Lawson	56	Vice Chairman	None
John R. Strangfeld, Jr.	49	Vice Chairman	None
Robert Charles Golden	56	Executive Vice President	None
Richard J. Carbone	55	Senior Vice President and Chief Financial Officer	None
John M. Liftin	59	Senior Vice President and General Counsel	None
Sharon C. Taylor	48	Senior Vice President, Corporate Human Resources	None

Biographical information about Prudential Financial executive officers is as follows:

Arthur F. Ryan was elected Chairman, Chief Executive Officer and President of Prudential Financial in December 2000, and served as President and Chief Executive Officer of Prudential Financial from January 2000 to December 2000. He joined Prudential Insurance as the Chairman of the Board, Chief Executive Officer and President in December 1994. Mr. Ryan was with Chase Manhattan Bank from 1972 to 1994, serving in various executive positions including President and Chief Operating Officer from 1990 to 1994 and Vice Chairman from 1985 to 1990. Mr. Ryan was elected a director of Prudential Financial in December 1999 and has been a director of Prudential Insurance since December 1994.

Vivian L. Banta was elected Vice Chairman of Prudential Financial in August 2002. Since January 2000, she variously served as Executive Vice President of Prudential Financial, Senior Vice President, Individual Financial Services, Executive Vice President, Individual Financial Services, Executive Vice President, U.S. Consumer Group, and Chief Executive Officer, Insurance Division of Prudential Insurance, a position she also holds at this time. Prior to joining Prudential, Ms. Banta was an independent consultant from 1997 to 1999, and served as Executive Vice President, Global Investor Services, Group Executive for Chase Manhattan Bank from 1991 to 1997.

Mark B. Grier was elected Vice Chairman of Prudential Financial in August 2002. He served as a director of Prudential Financial from December 1999 to January 2001, Executive Vice President from December 2000 to August 2002 and as Vice President of Prudential Financial from January 2000 to December 2000. He was elected Executive Vice President of Prudential Insurance in May 1995. Since May 1995 he has variously served as Chief Financial Officer, Executive Vice President, Corporate Governance, Executive Vice President, Financial Management, and Vice Chairman, Financial Management the position he holds at this time. Prior to joining Prudential, Mr. Grier was an executive with Chase Manhattan Corporation.

Rodger A. Lawson was elected Vice Chairman of Prudential Financial in August 2002. He was Executive Vice President of Prudential Financial from February 2001 to August 2002, and previously served as Executive Vice President, International Investments and Global Marketing Communications of Prudential Insurance. He served as Executive Vice President, Marketing and Planning of Prudential Insurance from June 1996 to October 1998. Prior to joining Prudential, Mr. Lawson was the President and Chief Executive Officer of VanEck Global

from April 1994 to June 1996; Managing Director and Partner, President and Chief Executive Officer of Global Private Banking and Mutual Funds, Bankers Trust Company from January 1992 to April 1994; Managing Director and Chief Executive Officer of Fidelity Investments—Retail from May 1985 to May 1991 and President and Chief Executive Officer of Dreyfus Service Corporation from March 1982 to May 1985.

John R. Strangfeld, Jr. was elected Vice Chairman of Prudential Financial in August 2002. He was Executive Vice President of Prudential Financial from February 2001 to August 2002. He served as Chief Executive Officer, Prudential Investment Management of Prudential Insurance from February, 2001 until April 2002. Mr. Strangfeld was also elected Chairman and CEO of Prudential Securities in October 2000, a position he holds at this time. He has been with Prudential since July 1977, serving in various management positions, including the executive in charge of Prudential's Global Asset Management Group since 1996; Senior Managing Director, The Private Asset Management Group from 1995 to 1996; and Chairman, PRICOA Capital Group (London) Europe from 1989 to 1995.

Robert Charles Golden was elected Executive Vice President of Prudential Financial in February 2001 and was elected Executive Vice President, Operations and Systems of Prudential Insurance in June 1997. Previously, he served as Executive Vice President and Chief Administrative Officer for Prudential Securities.

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

John M. Liftin was elected Senior Vice President and General Counsel of Prudential Financial in December 2000. He served as a director of Prudential Financial from December 1999 to January 2001 and as Vice President of Prudential Financial from January 2000 to December 2000. He was elected Senior Vice President and General Counsel of Prudential Insurance in April 1998. Prior to that, Mr. Liftin was an independent consultant from 1997 to 1998 and the Senior Vice President and General Counsel of Kidder, Peabody Group Inc. from 1987 to 1996.

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

ITEM 2. PROPERTIES

We own our headquarters building located at 751 Broad Street, Newark, New Jersey. Our headquarters is approximately 0.6 million square feet. In addition, we own other properties that we use for home office functions. Excluding properties used for the International Insurance and Investments division and Prudential Securities' operations, we own 15 and lease 19 properties. Our insurance operations use approximately 378 other locations throughout the U.S., all of which are leased.

For our International Insurance operations, we lease eight home offices located in Argentina, Brazil, China, Italy, Japan, The Philippines, Poland and Taiwan and own a home office in Korea. In addition, construction was completed on a 38 story office, residential and retail development in central Tokyo which we are now using as the home office of our Japanese operations. We purchased an 80% beneficial interest in this development in 2001. We also own 291 field offices and lease approximately 292 other field offices throughout Argentina, Brazil, Italy, Japan, Korea, The Philippines, Poland and Taiwan. For our International Investments segment, we own one branch office and lease approximately 30 other branch offices throughout Japan, Mexico, Taiwan, Korea, and Germany.

For our securities operations we lease two home offices in New York City, which total approximately 1.9 million square feet. These leases are linked to benefit agreements with the New York City Industrial Development Agency. In addition, we lease approximately 298 other locations throughout the U.S. and approximately 26 locations outside of the U.S. for our securities operations. We believe our properties are adequate and suitable for our business as currently conducted and are adequately maintained. The above properties do not include properties we own for investment only.

ITEM 3. LEGAL PROCEEDINGS

We are subject to legal and regulatory actions in the ordinary course of our businesses, including class action lawsuits. Our pending legal and regulatory actions include proceedings specific to us and proceedings generally applicable to business practices in the industries in which we operate. In our insurance operations, we are subject to class action lawsuits and individual lawsuits involving a variety of issues, including sales practices, underwriting practices, claims payment and procedures, additional premium charges for premiums paid on a periodic basis, denial or delay of benefits, return of premiums or excessive premium charges and breaching fiduciary duties to customers. In addition to the types of claims generally affecting our insurance operations, with respect to our automobile and homeowners insurance products, we are also subject to individual and class action lawsuits involving a variety of issues including allegations of "redlining" or impermissible discrimination among customers, diminution of automobile value following a casualty loss, improper adjustment of earthquake claims, and challenges to the method of calculating replacement cost value for homes, the deduction of depreciation for certain types of property losses, the amount of and changes to policy deductibles, and other coverage and claims payment disputes. In our investment-related operations, we are subject to litigation involving commercial disputes with counterparties or partners and class action lawsuits and other litigation alleging, among other things, that we made improper or inadequate disclosures in connection with the sale of assets and annuity and investment products or charged excessive or impermissible fees on these products, recommended unsuitable products to customers, mishandled customer accounts or breached fiduciary duties to customers. In our securities operations, we are subject to class action lawsuits, arbitrations and other actions arising out of our retail securities brokerage, account management, underwriting, former investment banking and other activities, including claims of improper or inadequate disclosure regarding investments or charges, recommending unsuitable investments or products that were unsuitable for tax advantaged accounts, assessing impermissible fees or charges, engaging in excessive or unauthorized trading, making improper underwriting allocations, breaching alleged duties to non-customer third parties and breaching fiduciary duties to customers. We may be a defendant in, or be contractually responsible to third parties for, class action lawsuits and individual litigation arising from our other operations, including claims for breach of contract and payment of real estate taxes on transfer of equitable interests in residential properties in our relocation businesses, or the businesses we are winding down or have divested, including claims under the Real Estate Settlement Procedures Act, in connection with our divested residential first mortgage operations and claims related to our discontinued healthcare operations. 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. The following is a summary of certain pending proceedings.

Insurance

Life Insurance Sales Practices Issues

We have been subject to substantial regulatory actions and civil litigation including class actions involving individual life insurance sales practices from 1982 through 1995. As of January 31, 2003, the Company has resolved those regulatory actions, its sales practices class action litigation and virtually all of the individual sales practices actions filed by policyholders who "opted out" of the sales practices class action.

For a discussion of charges and reserves relating to these matters, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Consolidated Results of Operations—Sales Practices Remedies and Costs."

Other

In August 2000, plaintiffs filed a purported national class action against us in the District Court of Valencia County, New Mexico, *Azar, et al. v. Prudential Insurance*, based upon the alleged failure to adequately disclose the increased costs associated with payment of life insurance premiums on a "modal" basis, *i.e.,* more frequently than once a year. Similar actions have been filed in New Mexico against over a dozen other insurance companies. The complaint includes allegations that we should have disclosed to each policyholder who paid for coverage on a modal basis the dollar cost difference between the modal premium and the annual premium required for the policy, as well as the effective annual percentage rate of interest of such difference. Based on these allegations, plaintiffs assert statutory claims including violation of the New Mexico Unfair Practices Act, and common law claims for breach of the implied covenant of good faith and fair dealing, breach of fiduciary duty, unjust enrichment and fraudulent concealment. The complaint seeks injunctive relief, compensatory and punitive damages, both in unspecified amounts, restitution, treble damages, pre-judgment interest, costs and attorneys' fees. We filed an answer denying the claims. Thereafter, both we and the plaintiffs filed separate motions for summary judgment. In March 2001, the court entered an order granting partial summary judgment to plaintiffs as to liability, permitting us to appeal the order and staying the case pending completion of the appeal proceeding. Both the Company and plaintiffs filed petitions for writ of certiorari to the New Mexico Supreme Court, both of which have been denied.

In October 2001, four housing advocacy groups and several individuals represented by one of the groups filed an action against the Company in the United States District Court for the District of Columbia, *National Fair Housing Alliance, Inc., et al. v. Prudential Insurance, et al*. The complaint alleges, *inter alia*, that Prudential Insurance and Prudential Property and Casualty Insurance Company intentionally engaged in discriminatory practices to limit, restrict or deny homeowners insurance in several urban areas, including Washington, D.C., Milwaukee, Wisconsin, Richmond, Virginia and Toledo, Ohio, as well as suburban Philadelphia, Pennsylvania. The complaint asserts causes of action based on alleged violations of the Fair Housing Act and describes allegedly discriminatory homeowners insurance underwriting guidelines, terms and conditions and rating territories. The complaint seeks declaratory and injunctive relief and compensatory and punitive damages in unspecified amounts. In July 2002, the District Court denied our motion to dismiss and in August 2002, denied our motion for reconsideration of its decision.

Securities

In 1999, a class action lawsuit, *Burns, et al. v. Prudential Securities, Inc., et al.* was filed in the Marion County, Ohio Court of Common Pleas against Jeffrey Pickett (a former Prudential Securities, Inc. ("Prudential Securities") Financial Advisor) and Prudential Securities alleging that Pickett transferred, without authorization, his clients' equity mutual funds into fixed income mutual funds in October 1998. The claims were based on theories of conversion, breach of contract, breach of fiduciary duty and negligent supervision. Compensatory and punitive damages in unspecified amounts were sought by plaintiffs. In October 2002, the case was tried and the jury returned a verdict against Prudential Securities and Pickett for $11.7 million in compensatory damages and against Prudential Securities for $250 million in punitive damages. We will try to have the verdict set aside and, failing that, appeal.

In November 1998, plaintiffs filed a purported class action lawsuit in the United States District Court for the Southern District of New York, *Gillet v. Goldman, Sachs & Co., et al.*, against over two dozen underwriters of initial public offering securities, including Prudential Securities. A number of similar actions brought on behalf of purported classes of both IPO purchasers and IPO issuers were consolidated under the name *In re Public Offering Fee Antitrust Litigation.* The amended complaint alleges that the defendants conspired to fix at 7% the spread that underwriting syndicates receive from issuers of securities in certain offerings in violation of the federal antitrust laws, and seeks treble damages and injunctive relief. In February 2001, the court dismissed the purchaser cases for lack of antitrust standing, without leave to replead. Plaintiffs appealed that dismissal to the United States Court of Appeals for the Second Circuit. In January 2003, the Second Circuit reversed the dismissal and remanded the action to the District Court on the ground that it was improper for the District Court to find as a matter of law that the alleged conspiracy did not affect IPO prices. In July 2001, a consolidated class action complaint was filed in the issuer cases, and, in September 2002, defendants' motion to dismiss that complaint was denied. Defendants' motion to certify the decision for interlocutory appeal to the United States Court of Appeals for the Second Circuit is pending.

In 1999 Martin R. Frankel, a Connecticut businessman, was indicted for allegedly misappropriating several hundred million dollars of assets of several insurance companies. Mr. Frankel controlled or was otherwise affiliated with accounts held at numerous broker-dealers, including Prudential Securities. In June 2001, an action was commenced in Circuit Court, Cole County, Missouri, *Lakin, et al. v. Prudential Securities Inc., et al.,* against Prudential Securities, Prudential Investments and Prudential Savings Bank by the insurance commissioners for Missouri, Mississippi, Tennessee and Oklahoma in their capacities as liquidators of six insurance companies previously controlled by Mr. Frankel. The complaint alleges that, in connection with accounts maintained by the insurance companies at Prudential, the Prudential defendants allowed Mr. Frankel and his associates to transfer funds without proper authority and failed to detect and stop their looting activities. The complaint asserts causes of action for negligence, breach of contract and breach of fiduciary duty, and seeks compensatory damages in an amount to be proved at trial. In August 2001, we removed the case to the United States District Court for the Western District of Missouri, Central Division. Prudential Securities answered the complaint, and Prudential Savings Bank filed a motion to dismiss based on lack of personal jurisdiction. In December 2001, plaintiff moved for leave to file an amended complaint that contains substantially the same allegations as its original complaint. In March 2002, the court granted Prudential Savings Bank's motion to dismiss it from the action. Plaintiffs have appealed that ruling to the United States Court of Appeals for the Eighth Circuit and the appeal remains pending.

In September 2001, an amended complaint was filed by a plan participant in a purported class action lawsuit, *Kolar v. Rite Aid, et al.*, pending against Rite Aid Corporation ("Rite Aid") and individual trustees of a Rite Aid-sponsored 401(k) plan in the United States District Court for the Eastern District of Pennsylvania naming Prudential Insurance, Prudential Securities, Prudential Retirement Services, Inc., Prudential Investment Management Services, LLC and the Rohrbaugh Group as defendants. In March 2003 the Court issued a final order approving the settlement of this matter.

An affiliate of Prudential Securities was a participant in a technology-related joint venture that brought a lawsuit in 1986 against Kyocera Corporation ("Kyocera"), a Japanese corporation, in the United States District Court for the Northern District of California, *LaPine Technology Corp. v. Kyocera Corp.* The complaint alleges, among other things, claims for breach of contract relating to the manufacture and distribution of computer disk drives. In September 1987, the District Court granted Kyocera's motion to compel arbitration and in 1994 an arbitration tribunal subsequently rendered a decision in favor of the joint venture (the "Award"). Our share of the Award, with interest, would exceed $300 million. The District Court subsequently denied Kyocera's motion to vacate, modify and correct the Award. In July 2002, the Ninth Circuit affirmed the District Court's decision. In December 2002, the Ninth Circuit granted Kyocera's motion to have the appeal reheard *en banc,* and oral argument is scheduled for March 2003.

Corporate and Other Operations

In July 2001, a purported national class action was filed against Prudential Insurance and its Board of Directors in the Superior Court of Essex County, New Jersey, *Hutcheson v. Prudential Insurance, et al.*, challenging Prudential Insurance's Plan of Reorganization. The complaint alleges that, pursuant to the Plan of Reorganization, non-participating policyholders would be paid demutualization compensation at the expense of participating policyholders and purports to assert causes of action for violation of New Jersey's demutualization law, breach and anticipatory breach of contract, and breach of fiduciary duty. The complaint also seeks to enjoin implementation of the Plan of Reorganization, to set aside the results of any vote to approve the Plan of Reorganization, and compensatory damages.

After *Hutcheson* was filed, two other similar lawsuits, containing allegations relating to the payment of demutualization compensation to non-participating policyholders, were filed in the Superior Court of New Jersey, Essex County, *i.e.*, *Denenberg v. Prudential Insurance* and *Scala v. Prudential Insurance*. The *Scala* complaint also contains allegations concerning the creation of the "Closed Block" and raises issues pertaining to voting on the Plan of Reorganization, including disclosures to policyholders. We have filed motions to dismiss all three actions. *Hutcheson*, *Denenberg* and *Scala* are all presently stayed pending the resolution of the appeals described below.

The New Jersey law governing the demutualization provides that a Commissioner's order approving or disapproving a plan of reorganization shall be a final agency decision subject to appeal in accordance with, and

within the time period specified by, the rules governing the courts of the State of New Jersey. In October and November, 2001, policyholders, including certain of the plaintiffs in the lawsuits described in the preceding paragraph, filed notices of appeal with the Superior Court of New Jersey, Appellate Division, that challenge the Commissioner's approval of the Plan of Reorganization, including its provision for distribution of consideration to non-participating policyholders. The appeals have all been consolidated. Oral argument has not yet been scheduled.

A successful challenge to the Plan of Reorganization or the Commissioner's Decision and Order (and the demutualization) could result in monetary damages, a modification of the Plan of Reorganization, or the Commissioner's approval being set aside. A successful challenge would likely result in substantial uncertainty relating to the terms and effectiveness of the Plan of Reorganization, and a substantial period of time might be required to reach a final determination. Such an outcome would likely negatively affect holders of Common Stock and could have a material adverse effect on our business, results of operations and financial condition.

In August 2002, a purported nationwide class action was filed in the United States District Court for the Eastern District of Texas captioned *Wright, et al. v. Ryan, et al.* The complaint names as defendants Prudential Insurance, Prudential Financial and various present and former officers and directors of the companies and alleges that the treatment of the costs of the sales practices litigation and settlement resulted in an inappropriate allocation of demutualization consideration under the Plan and that such allocation was not accurately described to the policyholders prior to voting. The complaint asserts claims based on common law fraud, breach of fiduciary duty, tortious interference and violations of the RICO statutes, and seeks compensatory and punitive damages in unspecified amounts. In November 2002, the case was transferred to the United States District Court for the District of New Jersey. The Company has moved to dismiss the case but the motion has not yet been decided.

In November 1996, plaintiffs filed a purported class action lawsuit against Prudential Insurance, the Prudential Home Mortgage Company, Inc. and several other subsidiaries in the Superior Court of New Jersey, Essex County, *Capitol Life Insurance Company v. Prudential Insurance, et al*., in connection with the sale of certain subordinated mortgage securities sold by a subsidiary of Prudential Home Mortgage. In February 1999, the Court entered an order dismissing all counts without prejudice with leave to refile after limited discovery. In May 2000, plaintiffs filed a second amended complaint that alleges violations of the New Jersey securities and RICO statutes, fraud, conspiracy and negligent misrepresentation, and seeks compensatory as well as treble and punitive damages. Defendants filed a motion to dismiss that was denied in October 2001. Defendants answered the second amended complaint in November 2001. In October 2002, plaintiffs' motion for class certification was denied. See "Business—Corporate and Other Operations—Divested Businesses—Residential First Mortgage Banking" for a discussion of other litigation relating to our divested residential mortgage banking operations.

In August 1999, a Prudential Insurance employee and several Prudential Insurance retirees filed an action in the United States District Court for the Southern District of Florida, *Dupree, et al., v. Prudential Insurance, et al*., against Prudential Insurance and its Board of Directors in connection with a group annuity contract entered into in 1989 between the Prudential Retirement Plan and Prudential Insurance. The suit alleged that the annuitization of certain retirement benefits violated ERISA and that, in the event of demutualization, Prudential Insurance would retain shares distributed under the annuity contract in violation of ERISA's fiduciary duty requirements. In July 2001, plaintiffs filed an amended complaint dropping three counts, and we filed an answer denying the essential allegations of the complaint. The complaint seeks injunctive and monetary relief, including restitution to the Prudential Retirement Plan of amounts alleged to have been wrongfully withdrawn and disgorgement of profits made on the use of Plan assets. In March 2002, the court dismissed certain of the claims against the individual defendants.

Discontinued Operations

As discussed under "Business—Discontinued Operations—Healthcare," we have agreed to indemnify Aetna for certain litigation involving the disposed healthcare operations, and we have been sued directly for certain alleged actions occurring before the disposition of those operations. This litigation includes class action lawsuits and individual suits involving various issues, including payment of claims, denial of benefits, vicarious liability for malpractice claims, contract disputes with provider groups and former policyholders, purported class action lawsuits challenging practices of our former managed care operations, including the class action lawsuits described below, and coordination of benefits with other carriers.

Nationwide class action lawsuits were filed against us in 1999-2000 in several United States District Courts on behalf of participants in our managed health care plans. In October 2000, by Order of the Judicial Panel on Multi-District Litigation, these actions were consolidated for pre-trial purposes, along with lawsuits pending against other managed health care companies, in the United States District Court for the Southern District of Florida, in a consolidated proceeding captioned *In re Managed Care Litigation.* The consolidated subscriber complaint, *Williamson v. Prudential Insurance*, alleges violations of RICO and ERISA through alleged misrepresentations of the level of health care services provided, failure to disclose financial incentive agreements with physicians, interference with the physician-patient relationship, breach of fiduciary duty, and deprivation of plaintiffs' rights to the receipt of honest medical services. It also alleges that we and other major health care organizations engaged in an industry-wide conspiracy to defraud subscribers as to the level of services and quality of care. The complaint seeks compensatory damages, restitution and treble damages, all in unspecified amounts, the imposition of an equitable trust for any wrongful revenues and attorneys' fees. Our motion to dismiss the complaint for failure to state a claim was granted and the case dismissed with leave to amend. An amended complaint filed in June 2001 asserts substantially the same claims. In February 2002, the District Court granted our motion to dismiss the RICO, conspiracy and unjust enrichment claims but not the ERISA breach of fiduciary duty claim and granted leave to plaintiffs to amend the ERISA claim. We joined the other defendants in filing a motion for reconsideration of the February dismissal order to the extent that it did not dismiss the ERISA fiduciary duty claims. Plaintiffs filed a motion for reconsideration of the dismissal of the RICO claims. These motions were denied by the District Court in June 2002. We also joined the other defendants in filing a petition requesting that the order be certified for appellate review, that was denied by the United States Court of Appeals for the Eleventh Circuit in May 2002. In September 2002, the District Court denied the plaintiffs' motion for class certification.

In *Batas and Vogel v. Prudential Insurance*, a case filed in a New York County Supreme Court in 1997 based on allegations similar to those in *Williamson*, an intermediate appeals court held that claims alleging breach of contract, fraud, tortious interference with contractual relations and violations of the New York deceptive acts and practices statute may be brought against managed care organizations. The appeals court affirmed the dismissal of claims for breach of fiduciary duty, breach of the covenant of good faith and for injunctive and declaratory relief. Plaintiffs' motion to certify a nationwide class of non-ERISA plan participants is pending.

We have also been sued in *Shane v. Humana, et al.,* a purported nationwide class action lawsuit brought on behalf of provider physicians and physician groups against Prudential and other health care companies in the consolidated proceeding in the United States District Court for the Southern District of Florida. That case alleges that the defendants engaged in an 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 original complaint asserted various claims for relief based on these allegations, several of which the court, in response to our motion, held were subject to mandatory arbitration. In February 2002, the Court granted our motion to dismiss the remaining claims, including RICO conspiracy and aiding and abetting claims, but allowed plaintiffs the opportunity to amend the complaint. We appealed the District Court's decision to the United States Court of Appeals for the Eleventh Circuit to the extent it failed to require the plaintiff to arbitrate all claims against us. In March 2002, the Court of Appeals affirmed the District Court's arbitration order in all respects. An amended complaint, naming additional plaintiffs, including three state medical associations, and an additional defendant, was filed in March 2001. Like the original complaint, it alleges claims of breach of contract, quantum meruit, unjust enrichment, violations of RICO, conspiracy to violate RICO, aiding and abetting RICO violations, and violations of state prompt pay statutes and the California unfair business practices statute. The amended complaint seeks compensatory and punitive damages in unspecified amounts, treble damages pursuant to RICO, and attorneys' fees. Our motion to dismiss the amended complaint remains pending. In September 2002, the District Court granted plaintiffs' motion for class certification of a nationwide class of provider physicians. That order has been appealed to the United States Court of Appeals for the Eleventh Circuit.

Summary

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matter was submitted to a vote of security holders of Prudential Financial during the fourth quarter of 2002.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

General

Prudential Financial, which was organized on December 28, 1999, 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.

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

	High	Low	Dividends
2002:			
First Quarter	$ 32.09	$ 30.05	$ —
Second Quarter	35.75	31.05	—
Third Quarter	32.99	27.35	—
Fourth Quarter	32.10	25.50	0.40
2001:			
Fourth Quarter	33.19	29.30	—

The high and low closing prices presented for the fourth quarter of 2001 are for the period from December 13, 2001 through December 31, 2001. On February 28, 2003, there were 3,650,830 registered holders of record for the Common Stock and 554.7 million shares outstanding. The closing price of the Common Stock on the New York Stock Exchange on February 28, 2003 was $30.03.

The Class B Stock was issued to institutional investors (two subsidiaries of American International Group, Inc. and Pacific Life Corp.) in a private placement pursuant to Section 4(2) of the Securities Act of 1933 on the date of demutualization. There is no established public trading market for the Class B Stock. During the fourth quarter of 2002, Prudential Financial paid an annual dividend of $9.625 per share of Class B Stock. On February 28, 2003, there were 3 holders of record for the Class B Stock and 2.0 million shares outstanding.

Prudential Financial's Board of Directors currently intends to continue to declare and pay annual dividends on the Common Stock and Class B Stock. Future dividend decisions will be based on, and affected by, a number of factors including the financial performance of the Financial Services Businesses and Closed Block Business for the Common Stock and Class B Stock, respectively; our overall financial condition, results of operations, cash requirements and future prospects; regulatory restrictions on the payment of dividends by Prudential Financial's subsidiaries; and such other factors as the Board of Directors may deem relevant. Dividends payable by Prudential Financial are limited to the amount that would be legally available for payment under New Jersey corporate law. For additional information on dividends and related regulatory restrictions, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" and Note 14 to the Consolidated Financial Statements included in this Annual Report on Form 10-K.

On the date of demutualization, Prudential Financial also issued 13.8 million 6.75% equity security units (the "Units"). Each Unit has a stated amount of $50 and initially consists of a contract requiring the holder to purchase, for $50, shares of Prudential Financial's Common Stock on November 15, 2004, and a redeemable capital security of Prudential Financial Capital Trust I, a statutory business trust that is consolidated in our financial statements, with a stated liquidation amount of $50.

The distribution of Common Stock to eligible policyholders in the demutualization was exempt from registration under the Securities Act of 1933 pursuant to Section 3(a)(10) based on the Commissioner of the New Jersey Department of Banking and Insurance's approval of the Plan of Reorganization.

Common Stock and Class B Stock

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

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

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

Dividends declared and paid on the Common Stock will depend upon the financial performance of the Financial Services Businesses. Dividends declared and paid on the Common Stock will not depend upon or be 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 also will not be affected by decisions with respect to dividend payments on the Class B Stock except as indicated in the following paragraph.

Dividends declared and paid on the Class B Stock will depend upon the financial performance of the Closed Block Business and, as the Closed Block matures, the holders of the Class B Stock will receive the surplus of the Closed Block Business no longer required to support the Closed Block Business for regulatory purposes. Dividends on the Class B Stock will be payable in an aggregate amount per year at least equal to the lesser of (i) a "Target Dividend Amount" of $19.25 million or (ii) 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, we will retain the flexibility to suspend dividends on the Class B Stock; however, if CB Distributable Cash Flow exists for any period and Prudential Financial chooses not to pay dividends on the Class B Stock in an aggregate amount at least equal to the lesser of the CB Distributable Cash Flow or the Target Dividend Amount for that period, then cash dividends cannot be paid on the Common Stock with respect to such period. The principal component of "CB Distributable Cash Flow" will be the amount by which Surplus and Related Assets, determined according to statutory accounting principles, exceed surplus that would be required for the Closed Block Business considered as a separate insurer; provided, however, that "CB Distributable Cash Flow" counts such excess only to the extent distributable as a dividend by Prudential Insurance under specified (but not all) provisions of New Jersey insurance law. See "—Convertibility" for the definition of "CB Distributable Cash Flow." Subject to the discretion of the Board of Directors of Prudential Financial, we currently anticipate paying dividends on the Class B Stock at the Target Dividend Amount for the foreseeable future.

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

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

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

Convertibility

The Common Stock is not convertible.

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

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

Holders of Class B Stock will be permitted to convert their shares of Class B Stock into such number of shares of Common Stock as have an aggregate average market value equal to 100% of the appraised Fair Market Value of the outstanding shares of Class B Stock (1) in the holder's sole discretion, in the year 2016 or at any time thereafter, and (2) at any time in the event that (a) the Class B Stock will no longer be treated as equity of Prudential Financial for federal income tax purposes or (b) the New Jersey Department of Banking and Insurance amends, alters, changes or modifies the regulation of the Closed Block, the Closed Block Business, the Class B Stock or the IHC debt in a manner that materially adversely affects the CB Distributable Cash Flow (as defined below); provided, however, that in no event may a holder of Class B Stock convert shares of Class B Stock to the extent such holder immediately upon such conversion, together with its affiliates, would be the "beneficial owner" (as defined under the Securities Exchange Act of 1934) of in excess of 9.9% of the total outstanding voting power of Prudential Financial's voting securities. In the event a holder of shares of Class B Stock requests to convert shares pursuant to clause (2)(a) in the preceding sentence, Prudential Financial may elect, instead of effecting such conversion, to increase the Target Dividend Amount to $12.6875 per share per annum retroactively from the time of issuance of the Class B Stock.

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

In the event of any reclassification, recapitalization or exchange of, or any tender offer or exchange offer for, the outstanding shares of Common Stock, including by merger, consolidation or other business combination, as a result of which shares of Common Stock are exchanged for or converted into another security which is both registered under the Securities Exchange Act of 1934 and publicly traded, then the Class B Stock will remain outstanding (unless exchanged by virtue of a "change of control" occurring or otherwise, or otherwise converted) and, in the event 50% or more of the outstanding shares of Common Stock are so exchanged or converted, holders of outstanding Class B Stock will be entitled to receive, in the event of any subsequent exchange or conversion, the securities into which the Common Stock has been exchanged or converted by virtue of such reclassification, recapitalization, merger, consolidation, tender offer, exchange offer or other business combination. If, in the event of any reclassification, recapitalization or exchange, or any tender or exchange offer for, the outstanding shares of Common Stock, including by merger, consolidation or other business combination, as a result of which a majority of the outstanding shares of Common Stock are converted into or exchanged or purchased for either cash or securities which are not public securities, or a combination thereof, the Class B Stock will be entitled to receive cash and/or securities of the type and in the proportion that such holders of Class B Stock would have received if an exchange or conversion of the Class B Stock had occurred immediately prior to the conversion, exchange or purchase of a majority of the outstanding shares of Common Stock and the holders of Class B Stock had participated as holders of Common Stock in such conversion, exchange or purchase. The amount of cash and/or securities payable upon such exchange or conversion will be calculated based upon the Fair Market Value of the Class B Stock as of the date on which the Common Stock was exchanged, converted or purchased and will be multiplied by 120%.

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

Any exchange or conversion of Class B Stock into Common Stock could occur at a time when either or both of the Common Stock and Class B Stock may be considered to be overvalued or undervalued. In the future, if the

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

ITEM 6. SELECTED FINANCIAL DATA

We derived the selected consolidated income statement data and division and segment operating results for the years ended December 31, 2002, 2001 and 2000 and the selected consolidated balance sheet data as of December 31, 2002 and 2001 from our Consolidated Financial Statements included elsewhere herein. We derived the selected consolidated income statement data for the years ended December 31, 1999 and 1998 and the selected consolidated balance sheet data as of December 31, 2000, 1999 and 1998 from consolidated financial statements not included herein.

In April 2001, we completed the acquisition of Gibraltar Life, which has adopted a November 30 fiscal year end. Consolidated balance sheet data as of December 31, 2002 and 2001 includes Gibraltar Life assets and liabilities as of November 30 and consolidated income statement data includes Gibraltar Life results from April 2, 2001, the date of its reorganization, through November 30, 2001 and December 1, 2001 though November 30, 2002. Statistics reported for Gibraltar Life are based on these dates as well.

We have made several dispositions that materially affect the comparability of the data presented below. In the fourth quarter of 2000, we restructured the capital markets activities of Prudential Securities, exiting its lead-managed equity underwriting for corporate issuers and institutional fixed income businesses. These businesses incurred a pre-tax loss of $36 million in 2002, a pre-tax loss of $159 million in 2001, a pre-tax loss of $620 million in 2000, pre-tax income of $23 million in 1999, and a pre-tax loss of $73 million in 1998. The loss from these operations in 2000 included charges of $476 million associated with our termination and wind-down of these businesses. In 2000, we sold Gibraltar Casualty Company, a commercial property and casualty insurer that we placed in wind-down status in 1985. In the fourth quarter of 2002, we incurred $79 million in charges under a stop-loss reinsurance agreement that we entered into at the time of sale. Gibraltar Casualty had no impact on results in 2001 and incurred pre-tax losses of $6 million in 2000, $72 million in 1999, and $76 million in 1998. Residual activity from the residential first mortgage banking business that we sold in a prior period resulted in a pre-tax loss of $41 million in 1998 primarily related to our remaining obligations with respect to this business, and pre-tax income of $35 million in 2002.

On December 18, 2001, 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. For a discussion of these transactions, see “Business—Overview and Demutualization” included elsewhere in this Annual Report on Form 10-K. “Demutualization costs and expenses” amounted to $588 million in 2001, $143 million in 2000, $75 million in 1999 and $24 million in 1998. “Demutualization costs and expenses” in 2001 include $340 million of demutualization consideration paid to former Canadian branch policyholders.

You should read this selected consolidated financial information in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our Consolidated Financial Statements included elsewhere herein.

	As of or for the Year Ended December 31,				
	2002	2001	2000	1999	1998
	(in millions, except per share and ratio information)				
Income Statement Data:					
Revenues:					
Premiums	$ 13,531	$ 12,477	$ 10,181	$ 9,528	$ 9,048
Policy charges and fee income	1,653	1,803	1,639	1,516	1,465
Net investment income	8,832	9,138	9,479	9,348	9,436
Realized investment gains (losses), net	(1,358)	(671)	(266)	924	2,641
Commissions and other income	4,017	4,324	5,299	5,095	4,299
Total revenues	26,675	27,071	26,332	26,411	26,889
Benefits and expenses:					
Policyholders' benefits	13,658	12,752	10,640	10,226	9,786
Interest credited to policyholders' account balances	1,846	1,804	1,751	1,811	1,953
Dividends to policyholders	2,644	2,722	2,724	2,571	2,477
General and administrative expenses	8,443	9,346	9,875	9,396	8,916
Capital markets restructuring	—	—	476	—	—
Sales practices remedies and costs	20	—	—	100	1,150
Demutualization costs and expenses	—	588	143	75	24
Total benefits and expenses	26,611	27,212	25,609	24,179	24,306
Income (loss) from continuing operations before income taxes	64	(141)	723	2,232	2,583
Income tax expense (benefit)	(192)	(34)	398	1,033	964
Income (loss) from continuing operations	256	(107)	325	1,199	1,619
Income (loss) from discontinued operations, net of taxes	(62)	(47)	73	(386)	(513)
Net income (loss)	$ 194	$ (154)	$ 398	$ 813	$ 1,106
Basic and diluted income from continuing operations per share—Common Stock(1)	$ 1.36	$ 0.07			
Basic and diluted net income per share—Common Stock(1)	$ 1.25	$ 0.07			
Basic and diluted net income (loss) per share—Class B Stock(1)	$ (264.00)	$ 1.50			
Dividends declared per share—Common Stock	$ 0.40				
Dividends declared per share—Class B Stock	$ 9.625				
Ratio of earnings to fixed charges(2)	1.04		1.23	1.79	1.83
Division and Segment Data:					
Income (loss) from continuing operations before income taxes(3):					
Individual Life and Annuities	$ 243	$ 284	$ 249	$ 200	
Group Insurance	26	(2)	156	143	
Property and Casualty Insurance	4	91	166	161	
Total Insurance	273	373	571	504	
Investment Management	203	133	206	189	
Financial Advisory	(41)	(136)	399	347	
Retirement	(235)	24	71	294	
Other Asset Management	45	55	42	43	
Total Investment	(28)	76	718	873	
International Insurance	584	554	281	227	
International Investments	(10)	(41)	(24)	(19)	
Total International Insurance and Investments	574	513	257	208	
Corporate and Other	2	(484)	(1,016)	303	
Total—Financial Services Businesses	821	478	530	1,888	
Closed Block Business	(757)	(619)	193	344	
Total	$ 64	$ (141)	$ 723	$ 2,232	

	As of or for the Year Ended December 31,				
	2002	2001	2000	1999	1998
			(in millions)		
Balance Sheet Data:					
Total investments excluding policy loans	$ 174,267	$ 157,264	$ 140,469	$ 151,338	$ 148,837
Separate account assets	70,555	77,158	82,217	82,131	80,931
Total assets	292,746	293,030	272,753	285,094	279,422
Future policy benefits, policyholders' account balances and unpaid claims and claim adjustment expenses	140,168	133,732	104,130	102,928	104,301
Separate account liabilities	70,555	77,158	82,217	82,131	80,931
Short-term debt	3,469	5,405	11,131	10,858	10,082
Long-term debt	4,757	5,304	2,502	5,513	4,734
Total liabilities	270,726	271,887	252,145	265,803	259,027
Guaranteed beneficial interest in Trust holding solely debentures of Parent	690	690	—	—	—
Equity	21,330	20,453	20,608	19,291	20,395

(1) Earnings per share data for 2001 reflects earnings for the period from December 18, 2001, the date of demutualization, through December 31, 2001 only. Net income during this period was $38 million and $3 million for the Financial Services Businesses and Closed Block Business, respectively.

(2) For purposes of this computation, earnings are defined as income from continuing operations before income taxes excluding undistributed income from equity method investments, fixed charges and interest capitalized. Fixed charges are the sum of gross interest expense, interest credited to policyholders' account balances and an estimated interest component of rent expense. Due to the Company's loss in 2001, the ratio coverage was less than 1:1 and is therefore not presented. Additional earnings of $176 million would have been required in 2001 to achieve a ratio of 1:1.

(3) Operating results by division and segment for 1998 are not readily available.

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

You should read the following analysis of our consolidated financial condition and results of operations in conjunction with the Forward-Looking Statements included on the Table of Contents, "Selected Financial Data" and the Consolidated Financial Statements included in this Annual Report on Form 10-K. The consolidated financial statements of Prudential Insurance for periods prior to the demutualization in December 2001 became the historical Consolidated Financial Statements of Prudential Financial.

Overview

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.

On the date of demutualization, Prudential Financial completed an initial public offering of 126.5 million shares of its Common Stock at an initial public offering price of $27.50 per share, including 16.5 million shares issued 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, discussed below. 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, various subsidiaries of Prudential Insurance were reorganized (or "destacked") becoming direct or indirect subsidiaries of Prudential Financial. To effect the destacking, Prudential Insurance distributed to Prudential Financial, directly or indirectly, the following subsidiaries, together with certain related assets and liabilities:

- our property and casualty insurance companies;
- our principal securities brokerage companies;
- our international insurance companies;
- our principal asset management operations; and
- our international securities and investments, domestic banking, and residential real estate brokerage franchise and relocation services operations.

The Plan of Reorganization required us to establish and operate a regulatory mechanism known as the "Closed Block." The Closed Block is designed generally to provide for the reasonable expectations 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 10 to the Consolidated Financial Statements and "—Financial Services Businesses and Closed Block Business" for more information on the Closed Block.

Financial Services Businesses and Closed Block Business

2002 Reorganization

In August 2002, we implemented organizational changes within the Financial Services Businesses. The discussion below presents the results of our divisions and segments on a basis consistent with the new organization structure. The reclassifications associated with the realignment of our divisions and segments had no impact on total adjusted operating income (defined below under "—Consolidated Results of Operations") or net income of the Financial Services Businesses or Closed Block Business.

Financial Services Businesses

We refer to the businesses in our three operating divisions and our Corporate and Other operations, collectively, as our Financial Services Businesses. The Insurance division consists of our Individual Life and Annuities, Group Insurance and Property and Casualty Insurance segments. The Investment division consists of our Investment Management, Financial Advisory, Retirement and Other Asset Management segments. The International Insurance and Investments division consists of our International Insurance and International Investments segments. We also have Corporate and Other operations, which includes our real estate and relocation services business, as well as corporate items and initiatives that are not allocated to business segments. Corporate and Other operations also include businesses that we have divested or placed in wind-down status.

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

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

Closed Block Business

For periods prior to 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 former Traditional Participating Products segment to the Financial Services Businesses. This capital was initially allocated to our Corporate and Other operations. As a result, income from continuing operations before income taxes of the Closed Block Business for the year ended December 31, 2002 does not include returns on these net assets, which were historically included in income from continuing operations of the former 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 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 also 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 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.

Revenues and Expenses

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

Profitability

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

- our ability to manufacture and distribute products and services and to introduce new products gaining market acceptance on a timely basis;
- our ability to price our insurance products at a level that enables us to earn a margin over the cost of providing benefits and the expense of acquiring customers and administering those products;
- our mortality and morbidity experience on individual and group life insurance, annuity and group disability insurance products;
- our persistency experience, which affects our ability to recover the cost of acquiring new business over the lives of the contracts;
- our management of our exposure to catastrophic and other losses on our property and casualty insurance products;
- our cost of administering insurance contracts and providing asset management products and services;
- our returns on invested assets, net of the amounts we credit to policyholders' accounts;
- our ability to earn commissions and fees from the sale and servicing of mutual funds, annuities, defined contribution and other investment products at a level that enables us to earn a margin over the expense of providing such services;
- the amount of our assets under management and changes in their fair value, which affect the amount of asset management fees we receive;
- our ability to generate commissions and fees from securities activities at a level that enables us to earn a margin over the expenses of providing such services; and
- our ability to generate favorable investment results through asset-liability management and strategic and tactical asset allocation.

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

Historically, the participating products included in the Closed Block have yielded lower returns on capital invested than many of our other businesses. With the completion of the demutualization, we expect that the proportion of the traditional participating products in our in force business will gradually diminish as these older policies age, and we grow other businesses. However, the relatively lower returns to us on this existing block of business will continue to affect our consolidated results of operations for many years. Our Common Stock reflects the performance of our Financial Services Businesses, but there can be no assurance that the market value of the Common Stock will reflect solely the performance of these businesses. The Financial Services Businesses include the capital previously included in the former Traditional Participating Products segment in excess of the amount necessary to support the Closed Block Business. The Financial Services Businesses also includes other traditional insurance products previously included in the former Traditional Participating Products segment but which are not included in the Closed Block. The Class B Stock reflects the financial performance of our Closed Block Business.

Application of Critical Accounting Policies

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

The following sections discuss the accounting policies applied in preparing our financial statements that management believes are most dependent on the application of estimates and assumptions.

Valuation of Investments

A large portion of our investments is reflected at fair value in the statements of financial position based on quoted market prices or estimates from independent pricing services. However, when such information is not available, for example, with respect to private placement fixed maturity securities, which comprise 18% of our investments as of December 31, 2002, fair value is estimated, typically by using a discounted cash flow model, which considers current market credit spreads for publicly traded issues with similar terms by companies of comparable credit quality. Consequently, changes in estimated future cash flows or in our assessment of the issuer's credit quality will result in changes in fair value estimates. For fixed maturities and equity securities classified as available for sale, the impact of such changes is recorded in "Accumulated other comprehensive income (loss)," a separate component of equity. However, the carrying value of these securities is reduced, with a corresponding charge to earnings, when a decline in value is considered to be other than temporary. Factors we consider in determining whether a decline in value is other than temporary include: whether the decline is substantial; the length of time the fair value has been less than cost, generally six months; and the financial condition and near-term prospects of the issuer. This corresponding charge is referred to as an impairment and is reflected in "Realized investment gains (losses), net" in the statements of operations. The level of impairment losses can be expected to increase when economic conditions worsen and decrease when economic conditions improve.

"Commercial loans," which comprise 11% of our investments as of December 31, 2002, are carried at unpaid principal balances, net of unamortized discounts and an allowance for losses. This allowance includes a loan specific portion as well as a portfolio reserve for incurred but not specifically identified losses. The loan specific portion is based on management's judgment as to ultimate collectibility of loan principal. The portfolio reserve is based on a number of factors, such as historical experience and portfolio diversification. Similar to impairment losses discussed above, the allowance for losses can be expected to increase when economic conditions worsen and decrease when economic conditions improve.

See “Business—General Account Investments” for a discussion of our investment portfolio and related results, including policies and disclosures regarding other than temporary declines in investment value.

Policyholder Liabilities and Deferred Policy Acquisition Costs

The liability for “Future policy benefits” is the largest liability included in our statements of financial position, 33% of total liabilities as of December 31, 2002. Changes in this liability are generally reflected in the “Policyholders’ benefits” caption in our statements of operations. This liability is primarily comprised of the present value of estimated future payments to holders of life insurance and annuity products where the timing and amount of payment depends on policyholder mortality, surrender or retirement experience. For traditional participating life insurance products of our Closed Block Business, the mortality and interest rate assumptions we apply are those used to calculate the policies’ guaranteed cash surrender values. For life insurance and annuity products of our Financial Services Businesses, expected mortality is generally based on the Company’s historical experience or standard industry tables. Interest rate assumptions are based on factors such as market conditions and expected investment returns. Although mortality and interest rate assumptions are “locked-in” upon the issuance of new insurance or annuity business with fixed and guaranteed terms, significant changes in experience or assumptions may require us to provide for expected future losses on a product by establishing premium deficiency reserves. For example, in 2000 we restructured the portfolio that supports the structured settlement products within our Retirement segment to reduce the emphasis on equity investments, which in turn lowered our expected future investment returns. As a result, we recorded a charge to establish a premium deficiency reserve for these products.

Our liability for “Unpaid claims and claim adjustment expenses,” which is 1% of total liabilities as of December 31, 2002, includes estimates of claims that we believe have been incurred, but have not yet been reported (“IBNR”) as of the balance sheet date, primarily attributable to our Property and Casualty Insurance segment and our Group Insurance segment. Consistent with industry accounting practice, we do not establish loss reserves until a loss, including a loss from catastrophe, has occurred. These IBNR estimates, and estimates of the amounts of loss we will ultimately incur on reported claims, which are based in part on our historical experience, are regularly adjusted to reflect actual claims experience. When actual experience differs from our previous estimate, the resulting difference will be included in our reported results for the period of the change in estimate in the “Policyholders’ benefits” caption in our statements of operations. On an ongoing basis, trends in actual experience are a significant factor in the determination of claim reserve levels. In recent years, actual claims experience with respect to our automobile insurance business within our Property and Casualty Insurance segment has been more favorable than the assumptions we used in originally establishing the reserves for these claims, which resulted in a benefit to earnings for these years due to reserve releases. Actual claims experience can also be less favorable than that assumed in establishing reserves, which can require a charge to earnings to increase reserves.

For most life insurance and annuity products that we sell, we defer costs that vary with and are related primarily to the production of new business to the extent these costs are deemed recoverable from future profits, and we record these costs as an asset known as “Deferred policy acquisition costs” or “DAC” in the statements of financial position. We amortize this DAC asset over the expected lives of the contracts, based on the level and timing of either estimated profits or premiums, depending on the type of contract. For products with amortization based on estimated profits, the amortization rate is periodically updated to reflect current period experience or changes in assumptions that affect future profitability, such as lapse rates, investment returns, mortality experience, expense margins and surrender charges. However, for products with amortization based on future premiums, the amortization rate is locked-in when the product is sold.

For example, expected profitability is a significant estimate in evaluating deferred acquisition costs related to annuity products. Expected profitability considers, among other assumptions, our best estimate of future asset returns to estimate the future fees we expect to earn, the costs associated with minimum death benefit guarantees we expect to incur and other profitability factors. For the average remaining life of our variable annuity contracts in force as of December 31, 2002, our evaluation of deferred policy acquisition costs is based on a 9.25% annual blended rate of return that reflects an assumed rate of return of 11.5% for equity type assets. Continuation of current market conditions or further deterioration in market conditions may result in increases in the amortization of deferred policy acquisition costs, while a significant improvement in market conditions may result in a

decrease in the amortization of deferred policy acquisition costs. These changes in DAC balances are included as a component of "General and administrative expenses" in our statements of operations.

See "—Insurance Division—Individual Life and Annuities" for discussion of the impact of DAC amortization on our results of our annuities businesses, including increased amortization recorded in 2002 and 2001 reflecting lower estimates of future gross profits as well as a discussion of the proposed AICPA Statement of Position, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts."

Reserves For Contingencies

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

Other Significant Estimates

In addition to the items discussed above, the application of GAAP requires management to make other estimates and assumptions. For example, accounting for pension and other postretirement and postemployment benefits requires estimates of future returns on plan assets, expected increases in compensation levels and trends in health care costs. See "—Corporate and Other Operations" for a discussion of our pension assumptions and related returns. Another example is the recognition of deferred tax assets, which depends on management's assumption that future earnings will be sufficient to realize the deferred benefit. This is discussed in Note 18 to the Consolidated Financial Statements.

Accounting Policies Adopted

Accounting for Stock Options

Employee stock options issued during 2001 and 2002 are accounted for using the intrinsic value method prescribed by Accounting Principles Board Opinion ("APB") No. 25, "Accounting to Stock Issued to Employees," and related interpretations, an allowable alternative method under Statement of Financial Accounting Standards ("SFAS") No.123, "Accounting for Stock-Based Compensation." Under APB No. 25, we did not recognize any stock-based compensation expense for employee stock options as all employee stock options had an exercise price equal to the market value of our Common Stock at the date of grant. After consideration, we have concluded that our employee stock options represent compensation costs and including such costs in our results of operations is a preferable method of accounting. Effective January 1, 2003, we changed our accounting for employee stock options to adopt the fair value recognition provisions of SFAS No. 123, as amended, prospectively for all new awards granted to employees on or after January 1, 2003.

Under these provisions, the fair value of all employee stock options awarded on or after January 1, 2003, will be included in the determination of net income, but not options awarded prior thereto. Accordingly, the amount we will include in the determination of net income will be less than that which would have been recognized if the fair value method had been applied to all awards since inception of the employee stock option plan. The fair value of employee stock options is determined using a Black-Scholes option pricing model that utilizes the following assumptions: dividend yield, expected volatility, risk-free interest rate, and expected life of the option. If we had accounted for all employee stock options under the fair value based accounting method, net income for the year ended December 31, 2002 would have been reduced by $30 million and basic and diluted earnings per share for Common Stock would have reduced by $.05. For the period December 18, 2001 through December 31, 2001, net income and basic and diluted earnings per share of Common Stock would have been reduced by $1 million and $.01, respectively.

Discontinued Operations

During 2002, we announced the discontinuance of our web-based business for the workplace distribution of voluntary benefits, our European retail transaction-oriented stockbrokerage and related activities and our Tokyo-based retail brokerage business. The discontinuance of these businesses was accounted for under SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." Under SFAS No. 144, in the period in which such components qualify for discontinued operations treatment, the results of operations for each component for all periods presented are reclassified to "Income (loss) from discontinued operations," a separate line in the statements of operations. In addition, where necessary, we reduced the carrying value of each component to estimated fair value through a charge to earnings that is also included in "Income (loss) from discontinued operations."

Goodwill

As of December 31, 2002, we completed our annual impairment testing of goodwill in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets." Impairment testing requires us to compare the fair value of each reporting unit to its carrying amount, including goodwill, and record an impairment charge if the carrying amount of a reporting unit exceeds its estimated fair value. As a result of the December 31, 2002 annual impairment test, we determined that the goodwill related to our Property and Casualty Insurance segment was impaired. Accordingly, we recorded an impairment charge of $33 million representing the entire carrying amount of the segment's goodwill. The Property and Casualty Insurance segment has been determined to be a reporting unit for goodwill impairment testing. The fair value of the segment was determined based on independent third party assessments. We initially adopted SFAS No. 142 as of January 1, 2002. Accordingly, results for the years ended December 31, 2001 and 2000 include goodwill amortization of $21 million and $13 million, respectively, while no goodwill amortization was recorded for 2002.

Recently Issued Accounting Pronouncements

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

The Financial Accounting Standards Board ("FASB") is currently discussing the accounting related to certain modified coinsurance ("modco") and funds withheld reinsurance agreements. More specifically, the discussions relate to whether modco and funds withheld reinsurance agreements that provide for a total return on a pool of fixed income securities contain embedded derivatives that would require bifurcation under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". The FASB plans to address this issue by combining it with a portion of the tentative guidance in SFAS No. 133 Implementation Issue No. B36, "Embedded Derivatives—Bifurcation Of Embedded Credit."

If embedded derivative accounting for certain modco and funds withheld reinsurance agreements is eventually required under Implementation Issue No. B36, we intend to apply the guidance prospectively, for all existing contracts and future transactions, in the quarter following final resolution of the Issue. Based upon our current level of modco and funds withheld reinsurance, we do not believe application of Implementation Issue No. B36, as we currently understand it, would have a material impact on our financial condition or results of operations.

Consolidated Results of Operations

In managing our business, we analyze operating performance separately for our Financial Services Businesses and our Closed Block Business. For the Financial Services Businesses, we analyze our operating performance using a non-GAAP measure we call "adjusted operating income." Results of the Closed Block Business for all periods are evaluated and presented only in accordance with GAAP. We calculate adjusted operating income for the Financial Services Businesses by adjusting our income from continuing 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 contribution to income/loss of divested businesses that we sold or exited 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 including impairments and sales of credit-impaired securities and related charges and adjustments. The timing of impairments and losses from sales of credit-impaired securities is largely dependent on market credit cycles and can vary considerably across periods. In addition, the timing of other sales that would result in gains or losses is subject to our discretion. Including the fluctuating effects of these transactions could distort trends in the underlying profitability of our businesses. We exclude sales practices remedies and costs relating to the settlement of individual life insurance sales practices issues for the period from 1982 through 1995 because they relate to a substantial and identifiable non-recurring event. We exclude contribution to income/loss of businesses we divested 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.

The tables below summarize certain financial data, including year-over-year variances, for the Financial Services Businesses on both a GAAP and adjusted operating income basis, as well as the results of the Closed Block Business on a GAAP basis. Following these tables, you will find a detailed discussion of Financial Services Businesses results of operations by segment, as well as results of operations of the Closed Block Business.

	For the year ended December 31,			Favorable (Unfavorable)	
	2002	2001	2000	2002 to 2001 Comparison	2001 to 2000 Comparison
			(in millions)		
Income from continuing operations before income taxes:					
Financial Services Businesses:					
Insurance Division	$ 273	$ 373	$ 571	$ (100)	$ (198)
Investment Division	(28)	76	718	(104)	(642)
International Insurance and Investments Division	574	513	257	61	256
Corporate and Other	2	(484)	(1,016)	486	532
Total Financial Services Businesses	821	478	530	343	(52)
Closed Block Business(1)	(757)	(619)	193	(138)	(812)
Income (loss) from continuing operations before income taxes	64	(141)	723	205	(864)
Income tax expense (benefit)(2)	(192)	(34)	398	158	432
Income (loss) from continuing operations	256	(107)	325	363	(432)
Income (loss) from discontinued operations, net of tax(3)	(62)	(47)	73	(15)	(120)
Net income	$ 194	$(154)	$ 398	$ 348	$ (552)

(1) See "—Results of Operations for Financial Services Businesses by Division and Closed Block Business—Closed Block Business" for a discussion of the results of our Closed Block Business.
(2) See "—Income Taxes" for a discussion of our income tax expense.
(3) See "—Discontinued Operations" for a discussion of the results of our discontinued operations.

Adjusted Operating Income

	For the year ended December 31,			Favorable (Unfavorable)	
	2002	2001	2000	2002 to 2001 Comparison	2001 to 2000 Comparison
			(in millions)		
Financial Services Businesses:					
Individual Life and Annuities	$ 390	$ 380	$ 261	$ 10	$ 119
Group Insurance	155	70	158	85	(88)
Property and Casualty Insurance	10	95	150	(85)	(55)
Insurance Division	555	545	569	10	(24)
Investment Management	139	141	205	(2)	(64)
Financial Advisory	(41)	(136)	399	95	(535)
Retirement	141	110	187	31	(77)
Other Asset Management	45	55	42	(10)	13
Investment Division	284	170	833	114	(663)
International Insurance	757	611	296	146	315
International Investments	(10)	(41)	(24)	31	(17)
International Insurance and Investments Division	747	570	272	177	298
Corporate and Other	194	64	43	130	21
Total Financial Services Businesses(1)	1,780	1,349	1,717	431	(368)
Items excluded from adjusted operating income:					
Realized investment losses, net, and related charges and adjustments					
Insurance Division	(282)	(172)	2	(110)	(174)
Investment Division	(312)	(94)	(115)	(218)	21
International Insurance and Investments Division	(173)	(57)	(15)	(116)	(42)
Corporate and Other	(92)	187	(280)	(279)	467
Total(2)	(859)	(136)	(408)	(723)	272
Sales practices remedies and costs—Corporate and Other(3)	(20)	—	—	(20)	—
Divested businesses—Corporate and Other(4)	(80)	(147)	(636)	67	489
Demutualization costs and expenses—Corporate and Other(5)	—	(588)	(143)	588	(445)
Total items excluded from adjusted operating income	(959)	(871)	(1,187)	(88)	316
Income from continuing operations before income taxes—Financial Services Businesses(1)	$ 821	$ 478	$ 530	$ 343	$ (52)

(1) See "—Results of Operations for Financial Services Businesses and Closed Block Business" for a discussion of income from continuing operations before income taxes and adjusted operating income of our divisions and our Corporate and Other operations.
(2) See "—Realized Investment Gains" 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.
(3) See "—Sales Practices Remedies and Costs" for a discussion of our sales practices remedies and costs.
(4) See "—Divested Businesses" for a discussion of the results of our divested businesses.
(5) See "—Demutualization Costs and Expenses" for a discussion of our demutualization costs and expenses.

Realized Investment Gains

Realized investment gains, net of losses, primarily 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 and portfolio management objectives. We require most issuers of private fixed maturity securities to pay us make-whole yield maintenance payments when they prepay the securities. The prepayments are driven by factors specific to the activities of our borrowers as much as by the interest rate environment.

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 do not qualify for hedge accounting, and consequently we recognize the changes in fair value of such contracts from period to period in current earnings, although we do not necessarily account for the 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, evaluated over several periods.

A portion of realized gains, pertaining to certain derivative results, are included in adjusted operating income. Pursuant to a currency hedging program, we execute forward sale contracts in the hedged currencies in exchange for U.S. dollars at a specified exchange rate. The maturities of these contracts correspond with future periods in which 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 such contracts, including mark-to-market adjustments of open 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 is included in adjusted operating income. In addition, we utilize 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." Periodic settlements pertaining to such 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 years ended December 31, 2002, 2001, and 2000, respectively. As discussed above, related charges pertain only to the Financial Services Businesses. For a discussion of overall income yield and investment income, see "Business—General Account Investments—Investment Results."

	Year Ended December 31,		
	2002	2001	2000
	(in millions)		
Consolidated:			
Financial Services Businesses ("FSB"):			
Realized investment losses, net	$ (771)	$ (128)	$ (357)
Related charges	6	26	(29)
Derivative gains included in adjusted operating income	(94)	(34)	(22)
FSB realized investment losses, net, and related charges and adjustments	(859)	(136)	(408)
Closed Block Business ("CBB") realized investment gains (losses), net	(587)	(543)	91
Consolidated realized investment losses, net, and related charges and adjustments	$ (1,446)	$ (679)	$ (317)

	Year Ended December 31,		
	2002	2001	2000
	(in millions)		
Financial Services Businesses:			
Realized investment losses, net, and related charges and adjustments:			
Fixed maturity investments	$ (500)	$ (342)	$ (690)
Equity securities	(149)	(59)	206
Derivative instruments	(226)	236	70
Other	104	37	57
FSB realized investment losses, net of gains	(771)	(128)	(357)
Related charges	6	26	(29)
Derivative gains included in adjusted operating income	(94)	(34)	(22)
Total FSB realized investment losses, net, and related charges and adjustments	$ (859)	$ (136)	$ (408)

	Year Ended December 31,		
	2002	2001	2000
	(in millions)		
Closed Block Business:			
Realized investment gains (losses), net:			
Fixed maturity investments	$ (212)	$ (372)	$ (376)
Equity securities	(186)	(177)	244
Derivative instruments	(174)	(10)	117
Other	(15)	16	106
Total CBB realized investment gains (losses), net	$ (587)	$ (543)	$ 91

2002 to 2001 Comparison. Consolidated realized investment losses, net of gains and related charges and adjustments, were $1,446 million for 2002, compared to $679 million for 2001.

The Financial Services Businesses' net realized investment losses for 2002, before related charges and adjustments, were $771 million compared to $128 million for 2001. Realized losses from impairments and credit related sales were $1,055 million for 2002 and $785 million for 2001. These losses were offset in part, in both periods, by realized gains driven largely by sales of fixed income securities in declining rate environments and gains from prepayments of private bonds. Realized losses for 2002 include derivative losses of $226 million, compared to derivative gains of $236 million for 2001. These amounts include $94 million and $34 million of realized investment gains for 2002 and 2001, respectively, that are included as part of adjusted operating income. The remaining derivative losses in 2002 were primarily the result of losses of $152 million on treasury futures contracts used to manage the duration of the Company's fixed maturity investment portfolio. In addition, there were losses of $88 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. Derivative gains recorded for 2001 were primarily attributable to the impact of the strengthening dollar on currency hedges of non-U.S. dollar investments, as well as gains on Japanese equity futures contracts held in anticipation of sales of equity securities.

For the Closed Block Business, net realized investment losses for 2002 were $587 million compared to $543 million for 2001. Net losses on derivatives were $174 million for 2002 compared to $10 million for 2001. Derivative losses for 2002 were largely attributable to losses on equity futures contracts and currency hedges of non-U.S. dollar investments. Realized losses from non-derivative activity were $413 million for 2002 compared to $533 million for 2001. Realized losses in 2002 include impairments and credit related losses aggregating $896 million, which were offset in part by realized gains on sales of fixed income securities and prepayment premiums. Realized losses in 2001 included $659 million of impairments and credit related losses, which were offset in part by realized gains on sales of fixed income securities and prepayment premiums.

2001 to 2000 Annual Comparison. Consolidated realized investment losses, net of gains and related charges and adjustments, were $679 million in 2001, compared to $317 million in 2000.

The Financial Services Businesses' net realized investment losses for 2001, before related charges and adjustments, were $128 million compared to $357 million for 2000. Realized losses from impairments and credit

related sales were $785 million for 2001 and $542 million for 2000. Realized losses in 2001 were offset in part by realized gains from sales of fixed income securities in a declining rate environment and from prepayment gains on private bonds. Realized losses in 2000 were offset in part by realized gains from sales of equities during more favorable equity market conditions in connection with a portfolio rebalancing program. Realized gains from derivatives were $236 million for 2001, compared to gains of $70 million for 2000. These amounts include $34 million and $22 million of realized investment gains for 2001 and 2000, respectively, that are included as part of adjusted operating income. Derivative gains recorded for 2001 were primarily attributable to the impact of the strengthening dollar on currency hedges of non-U.S. dollar investments, as well as gains on Japanese equity futures contracts held in anticipation of sales of equity securities.

For the Closed Block Business, net realized investment losses for 2001 were $543 million compared to realized investment gains of $91 million for 2000. Net losses on derivatives were $10 million for 2001 compared to gains of $117 million for 2000. Derivative gains in 2000 were largely attributable to gains on treasury futures contracts used to manage the duration of the fixed maturity investment portfolio. Realized losses from non-derivative activity were $533 million for 2001 compared to $26 million for 2000. Realized losses in 2001 included $659 million of impairments and credit related losses, which were offset in part by realized gains on sales of fixed income securities and prepayment premiums. Realized losses in 2000 include impairments and credit related losses aggregating $454 million, offset by net realized gains from sales of equities during more favorable equity market conditions in connection with a portfolio rebalancing program, and from gains in joint venture real estate sales.

Sales Practices Remedies and Costs

Our income from continuing operations before income taxes for the year ended December 31, 2002 includes a pre-tax charge of $20 million of additional sales practices costs including related administrative costs, litigation costs and settlements. See Note 22 to the Consolidated Financial Statements for a description of the insurance sales practices litigation.

Divested Businesses

Our income from continuing operations before income taxes includes results from several businesses that we have divested but did not qualify for “discontinued operations” treatment in our income statement under GAAP. Results of divested businesses reflect losses of $80 million, $147 million and $636 million for 2002, 2001 and 2000, respectively. Our results from divested businesses for 2002 primarily relate to Gibraltar Casualty Company, a commercial property and casualty insurer that we sold in September 2000, to Everest Re Group, Ltd. (“Everest”). Pursuant to the sale we entered into a stop-loss reinsurance agreement whereby if and when aggregate post-sale claim and claim-related payments exceed Gibraltar Casualty’s reserves recorded at the time of sale, we will pay Everest for 80% of the first $200 million of such excess. Through December 31, 2002 Everest had recorded reserve additions of $99 million. In the fourth quarter of 2002, we recorded a liability of $79 million representing our 80% share of such development, generally related to asbestos and environmental exposures. The losses from divested business for 2001 and 2000 relate primarily to the former lead-managed equity underwriting for corporate issuers and institutional fixed income businesses of Prudential Securities, which recorded pre-tax losses of $159 million in 2001 and $620 million in 2000. The loss in 2001 came primarily from deterioration in the value of collateralized receivables, which we are in the process of liquidating, coupled with wind-down costs, while the losses from these operations in 2000 came primarily from charges of $476 million associated with our termination and wind-down of these activities. The remainder of our divested businesses are attributable to our remaining obligations with respect to our divested residential mortgage banking business, a benefits plan administrator we sold in 1998, and a Canadian life insurance company that we sold in May 2000.

Demutualization Costs and Expenses

We incurred costs and expenses related to demutualization totaling $588 million and $143 million in the years ended December 31, 2001 and 2000, respectively. Demutualization costs in 2001 included $340 million of demutualization consideration paid to our former Canadian branch policyholders. Demutualization costs and

expenses are reported separately in our consolidated income statements within income from continuing operations before income taxes. 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

Shown below is our income tax provision (benefit) for the years ended December 31, 2002, 2001 and 2000, separately reflecting the impact of certain significant items. Also presented below is the income tax provision (benefit) that would have resulted from application of the statutory 35% federal income tax rate in each of these periods.

	For the Year Ended December 31,		
	2002	2001	2000
		(in millions)	
Tax provision (benefit)	$ (192)	$ (34)	$ 398
Impact of:			
Favorable tax resolution pertaining to 1995 disposition	183	—	—
Adjustments to mutual life insurance company tax estimated liability	—	200	(100)
Tax provision (benefit) excluding these items	$ (9)	$ 166	$ 298
Tax provision (benefit) at statutory rate	$ 23	$ (49)	$ 253

For the year ended December 31, 2001, the difference between taxes recorded excluding the items shown above and taxes that would have resulted from the application of the statutory rate is attributable, in part, to the inclusion of non-deductible demutualization costs and expenses in income from continuing operations.

Discontinued Operations

In the fourth quarter of 2002, we announced our decision to exit certain of the international securities operations of Prudential Securities Group Inc. in Europe. The exited operations include the European retail transaction-oriented stockbrokerage and related activities. Upon exiting these activities, the primary business of Prudential Securities Group Inc. in Europe is the provision of private banking and wealth management services to high net worth individuals. Institutional services in Europe are limited primarily to the sale of U.S. equities. The loss for the discontinued businesses for the year ended December 31, 2002 includes a pre-tax charge of $43 million relating primarily to severance and termination benefits, and office closure costs. Also, in the fourth quarter of 2002, we decided to sell our retail broker-dealer operations in Tokyo and have included such in discontinued operations.

In the third quarter of 2002, we discontinued our web-based business for the workplace distribution of voluntary benefits. Results of this business, previously reflected in the results of Corporate and Other operations and now reflected as discontinued operations, were losses of $37 million, net of tax, and $13 million, net of tax, for 2002 and 2001, respectively. For 2002, these amounts include an impairment charge of $32 million on our investment in a vendor of that distribution platform, as well as a charge of $7 million related to severance and contract termination costs. The foregoing amounts are before related income taxes.

Results for discontinued operations also include a reduction in reserves pertaining to our discontinued healthcare business, primarily in connection with the favorable resolution of certain legal and regulatory matters, of $45 million, $16 million and $77 million, net of tax, for the years ended December 31, 2002, 2001 and 2000, respectively. See Note 3 to the Consolidated Financial Statements for a discussion of our retained obligations for litigation pertaining to this business.

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

The following tables summarize certain financial data for each of our three divisions and for Corporate and Other operations, which together comprise our Financial Services Businesses, and our Closed Block Business. 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, under "Adjusted operating income," are prepared on that basis.

	For the Year Ended December 31,		
	2002	2001	2000
	(in millions)		
Income (loss) from continuing operations before income taxes:			
Financial Services Businesses:			
Individual Life and Annuities	$ 243	$ 284	$ 249
Group Insurance	26	(2)	156
Property and Casualty Insurance	4	91	166
Total Insurance Division	273	373	571
Investment Management	203	133	206
Financial Advisory	(41)	(136)	399
Retirement	(235)	24	71
Other Asset Management	45	55	42
Total Investment Division	(28)	76	718
International Insurance	584	554	281
International Investments	(10)	(41)	(24)
Total International Insurance and Investments Division	574	513	257
Corporate and Other	2	(484)	(1,016)
Income from continuing operations before income taxes	821	478	530
Income taxes	80	129	292
Income from continuing operations after income taxes—Financial Services Businesses	741	349	238
Discontinued Operations:			
Income (loss) from discontinued operations, net of taxes	(62)	(47)	73
Net income—Financial Services Businesses	679	302	311
Net income (loss)—Closed Block Business (3)	(485)	(456)	87
Total	$ 194	$ (154)	$ 398

	For the Year Ended December 31,		
	2002	2001	2000
	(in millions)		
Adjusted operating income(1):			
Individual Life and Annuities	$ 390	$ 380	$ 261
Group Insurance	155	70	158
Property and Casualty Insurance	10	95	150
Total Insurance Division	555	545	569
Investment Management	139	141	205
Financial Advisory	(41)	(136)	399
Retirement	141	110	187
Other Asset Management	45	55	42
Total Investment Division	284	170	833
International Insurance(2)	757	611	296
International Securities and Investments	(10)	(41)	(24)
Total International Insurance and Investments Division	747	570	272
Corporate and Other	194	64	43
Total Financial Services Businesses	1,780	1,349	1,717

	For the Year Ended December 31,		
	2002	2001	2000
	(in millions)		
Items excluded from adjusted operating income:			
Realized investment losses, net, and related charges and adjustments:			
Realized investment losses, net, and related adjustments	(865)	(162)	(379)
Related charges	6	26	(29)
Total realized investment losses, net, and related charges and adjustments	(859)	(136)	(408)
Sales practices remedies and costs	(20)	—	—
Divested businesses	(80)	(147)	(636)
Demutualization costs and expenses	—	(588)	(143)
Income from continuing operations before income taxes—Financial Services Businesses	$ 821	$ 478	$ 530

	As of December 31, 2002	As of December 31, 2001
	(in millions)	
Assets:		
Financial Services Businesses:		
Insurance Division	$ 67,725	$ 68,707
Investment Division	97,104	102,518
International Insurance and Investments Division	43,555	40,063
Corporate and Other	14,916	20,017
Total Financial Services Businesses	223,300	231,305
Closed Block Business(3)	69,446	61,725
Total	$ 292,746	$ 293,030

(1) Adjusted operating income is a non-GAAP measure that excludes realized investment gains, net of losses and related adjustments; results of divested businesses and discontinued operations; sales practices remedies and costs; and demutualization costs and expenses.
(2) International Insurance segment results include Gibraltar Life, which has adopted a November 30 fiscal year end, from April 2, 2001, the date of its reorganization, through November 30, 2001 and December 1, 2001 through November 30, 2002.
(3) Amounts shown for the Closed Block Business represent results of the former Traditional Participating Products segment for the periods prior to the date of demutualization.

Other Data:

	As of December 31, 2002	As of December 31, 2001
	(in billions)	
Assets Under Management and Administration (at fair market value):		
Managed by Investment Division(1):		
Investment Management Segment—Investment Management and Advisory Services		
Retail customers(2)	$ 79.9	$ 96.5
Institutional customers(3)	85.2	89.1
General account(4)	122.9	113.8
Total Investment Management and Advisory Services	288.0	299.4
Non-proprietary wrap-fee and other assets under management(5)	33.0	41.2
Total managed by Investment Division	321.0	340.6
Managed by International Insurance and Investments Division(4)(6)	43.6	39.3
Managed by Insurance Division	8.8	8.1
Total assets under management	373.4	388.0
Client assets under administration	182.2	201.6
Total assets under management and administration	$ 555.6	$ 589.6

(1) Reflects reclassification of amounts by client category as of January 1, 2002, based on 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 the general account.
(3) Consists of third party institutional assets and group insurance contracts.
(4) Reflects the Investment division's assumption, as of June 30, 2002, of management of $3.5 billion of assets that were previously reflected in assets managed by the International Insurance and Investments division.
(5) Consists of wrap-fee assets gathered by the Financial Advisory segment and funds invested in the non-proprietary investment options of our investment products other than wrap-fee products.
(6) Primarily general account assets of the International Insurance segment other than those managed by the Investment division.

	As of December 31, 2002	As of December 31, 2001
Distribution Representatives:		
Prudential Agents	4,389	4,387
Financial Advisors(1)	4,731	5,951
International Life Planners	4,505	4,104
Gibraltar Life Advisors	5,155	6,121

(1) All periods exclude Financial Advisors associated with our discontinued international securities operations.

Insurance Division

Individual Life and Annuities

Operating Results

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

	Year Ended December 31,		
	2002	2001	2000
	(in millions)		
Operating results:			
Revenues(1)	$ 2,704	$ 2,720	$ 2,741
Benefits and expenses(2)	2,314	2,340	2,480
Adjusted operating income	390	380	261
Realized investment losses, net, and related charges	(147)	(96)	(12)
Income from continuing operations before income taxes	$ 243	$ 284	$ 249

(1) Revenues exclude realized investment losses, net, of $162 million, $108 million and $14 million for the years ended December 31, 2002, 2001 and 2000, respectively.
(2) Benefits and expenses exclude the impact of net realized investment gains and losses on deferred policy acquisition cost amortization and change in reserves of $(15) million, $(12) million and $(2) million for the years ended December 31, 2002, 2001 and 2000, respectively.

In the fourth quarter of 2002, we entered into a definitive purchase agreement to acquire Skandia U.S. Inc. Skandia is the largest distributor of variable annuities through independent financial planners in the U.S. We expect this acquisition to close in the second quarter of 2003. This transaction is subject to various closing conditions, including, among others, regulatory approvals, filings under the Hart-Scott-Rodino Antitrust Improvements Act and approval by the boards of directors and shareholders of the mutual funds advised by Skandia U.S. subsidiaries.

Income From Continuing Operations Before Income Taxes

2002 to 2001 Annual Comparison. Income from continuing operations before income taxes declined $41 million, or 14%, from $284 million in 2001 to $243 million in 2002. The decline reflects an increase in realized investment losses, net, and related charges of $51 million, to losses of $147 million in 2002. For a discussion of

realized investment losses, net, and related charges see "—Consolidated Results of Operations—Realized Investment Gains." Partially offsetting this was an increase in adjusted operating income of $10 million, to $390 million in 2002, as discussed below.

2001 to 2000 Annual Comparison. Income from continuing operations before income taxes increased $35 million, or 14%, from $249 million in 2000 to $284 million in 2001. The increase reflects an increase in realized investment losses, net, and related charges of $84 million, to losses of $96 million in 2001. This increase was more than offset by an increase in adjusted operating income of $119 million, to $380 million in 2001, as discussed below.

Adjusted Operating Income

2002 to 2001 Annual Comparison. Adjusted operating income increased $10 million in 2002 from 2001. The increase reflected a $159 million increase from individual life insurance and a $149 million decrease from individual annuities.

The segment's individual life insurance business reported adjusted operating income of $432 million in 2002, compared to $273 million in the prior year, which included $25 million of net losses from insurance claims arising out of the September 11, 2001 terrorist attacks on the U.S. Results for 2002 benefited 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 that year's expenses included $90 million of implementation costs. Additionally, results of our individual life insurance business for 2002 benefited from increased investment income, primarily from an increase in the level of invested assets. However, these items were partially offset by less favorable mortality experience in 2002, as well as a $47 million increase in amortization of deferred policy acquisition costs, primarily due to a market decline and related policy lapses associated with declines in variable life insurance account values.

The segment's individual annuity business reported a loss, on an adjusted operating income basis, of $42 million in 2002 compared to adjusted operating income of $107 million in 2001. Results of our annuity business in 2002 included charges totaling $137 million for additional amortization of deferred policy acquisition costs. These charges reflect our lower estimates of future gross profits resulting from greater expected costs from minimum death benefit guarantees and lower expected fees under these contracts due to declines in asset values and decreased future asset returns. Results for 2001 included similar charges for additional amortization of deferred policy acquisition costs totaling $30 million. A decline in fee revenues from our variable annuity products due to a decrease in average account values was partially offset by a decrease in operating expenses resulting from our expense management efforts.

Deferred acquisition costs related to annuity products are evaluated quarterly by comparing our actual profitability to our expectations. Expected profitability considers, among other assumptions, our estimate of future asset returns which determine the future fees we will earn, the costs associated with minimum death benefit guarantees we expect to incur and other profitability factors. If actual asset returns do not differ significantly from our expectations, they do not result in a change in the rate of amortization of deferred acquisition costs. Where actual asset returns differ significantly from expectations, future asset return assumptions are evaluated using a reversion to mean approach. Under the reversion to mean approach, we consider historical returns over a period of time and project returns for a future four year period so that the investments underlying the annuities grow at a targeted return for the entire period. We evaluate returns over a historical period beginning January 1, 2000 giving higher weighting to the returns experienced during the most recent two year period. A calculated rate of return over the four future years, which we refer to as the look-forward period, is determined so that this calculated rate, together with the actual rate of return for the historical period, produces the targeted return for the entire period. If the calculated rate of return is consistent with our range of expectations in light of market conditions, we use it to project the asset growth for the next four years. If the calculated rate of return is not supported by our current expectations, we adjust the rate of return for purposes of these computations. For contract years after the look-forward period, we project asset growth using our long-term rate, currently an 8% annual blended rate of return, which reflects an assumed rate of return of 8.85% for equity type assets. Beginning in the second quarter and continuing throughout the year, we utilized a rate of return lower than the calculated return, which contributed to our additional amortization of deferred acquisition

costs during the second and third quarters of 2002. The equity rate of return used in the immediate four year look-forward period varies by product, but was under 15% for all of our variable annuity products for our evaluation of deferred policy acquisition costs as of December 31, 2002. For the average remaining life of our variable annuity contracts in force as of December 31, 2002, our evaluation of deferred policy acquisition costs is based on a 9.25% annual blended rate of return that reflects an assumed rate of return of 11.5% for equity type assets. Continuation of current market conditions or additional deterioration in market conditions may result in further increases in the amortization of deferred policy acquisition costs, while a significant improvement in market conditions may result in a decrease in the amortization of deferred policy acquisition costs.

2001 to 2000 Annual Comparison. Adjusted operating income increased $119 million in 2001 from 2000. The increase reflected a $159 million increase from individual life insurance and a $40 million decrease from individual annuities.

The segment's individual life insurance business reported adjusted operating income of $273 million in 2001, compared to $114 million in the prior year. The increase came primarily from a $183 million decrease in operating expenses primarily from savings that we began to realize from our field management and agency restructuring program and lower program implementation costs, which amounted to $90 million in 2001 and $107 million in 2000. Additionally, in 2000 we recorded a $23 million one-time increase in reserves related to a portion of our variable life insurance business in force. However, amortization of deferred policy acquisition costs increased $60 million in 2001 from 2000, and we recorded net losses of $25 million from insurance claims arising from the September 11, 2001 terrorist attacks on the U.S.

The segment's individual annuity business reported adjusted operating income of $107 million in 2001, compared to $147 million in the prior year. Adjusted operating income for 2000 benefited $21 million from refinements in our calculations of deferred policy acquisition costs. Excluding this change, adjusted operating income of our individual annuity business decreased $19 million, or 15%, primarily due to lower fee revenues.

Revenues

2002 to 2001 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," decreased $16 million, or 1%, from 2001 to 2002. The decrease reflects a $60 million decrease from individual annuities, partially offset by a $44 million increase from individual life insurance.

The segment's individual life insurance business reported revenues of $1.963 billion in 2002, compared to $1.919 billion in 2001. Net investment income increased $27 million, or 7%, from $391 million in 2001 to $418 million in 2002, primarily from an increase in the level of invested assets. Commissions and other income increased $12 million, from $124 million in 2001 to $136 million in 2002, primarily due to an increased level of reinsurance activity. Premiums amounted to $395 million in 2002, essentially unchanged from the prior year.

Revenues from our individual annuity business declined $60 million, from $801 million in 2001 to $741 million in 2002. Policy charges and fees and asset management fees decreased $48 million from $315 million in 2001 to $267 million in 2002, driven primarily from our variable annuity products, reflecting a decline in the average market value of customer accounts on which our fees are based. Net investment income declined $25 million, from $440 million in 2001 to $415 million in 2002, primarily due to lower yields on our investment portfolio. These declines were partially offset by higher premiums resulting from increased sales of our immediate income annuity product.

2001 to 2000 Annual Comparison. Revenues decreased $21 million, or 1%, in 2001 from 2000. The decrease reflects a $112 million decline from individual annuities, partially offset by an increase in revenues of $91 million from individual life insurance.

The segment's individual life insurance business reported revenues of $1.919 billion in 2001, an increase of $91 million, or 5%, from 2000. Premiums increased $117 million, or 43%, from $270 million in 2000 to $387 million in 2001, reflecting increased 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

$1.017 billion in 2001, essentially unchanged from $1.023 billion in 2000. Net investment income increased $17 million, from $374 million in 2000 to $391 million in 2001, primarily from an increase in the base of general account invested assets. Commissions and other income decreased $37 million, from $161 million in 2000 to $124 million in 2001, primarily as a result of a decline in sales of non-Prudential products by our agents.

Revenues from our individual annuity business declined $112 million, from $913 million in 2000 to $801 million in 2001. Policy charges and fees and asset management fees decreased $55 million, from $370 million in 2000 to $315 million in 2001, primarily from our variable annuity products reflecting a decline in the average market value of customer accounts on which our fees are based. Net investment income declined $31 million, from $471 million in 2000 to $440 million in 2001, primarily due to lower yields on our investment portfolio. Premiums declined $26 million, from $72 million in 2000 to $46 million in 2001, primarily due to a decline in premiums we recognized on conversion by customers of deferred annuities to income-paying status.

Benefits and Expenses

2002 to 2001 Annual Comparison. Benefits and expenses, as shown in the table above under "—Operating Results," decreased $26 million, or 1%, from 2001 to 2002. The decrease reflects a decrease of $115 million from individual life insurance and an $89 million increase from individual annuities.

Benefits and expenses of our individual life insurance business decreased $115 million, or 7%, from $1.646 billion in 2001 to $1.531 billion in 2002. Operating expenses, including distribution costs that we charge to expense, decreased $159 million, from $578 million in 2001 to $419 million in 2002, reflecting savings from our program to restructure our field management and agency structure, for which expenses in 2001 included $90 million of implementation costs. Policyholder benefits and related changes in reserves decreased $12 million, from $688 million in 2001 to $676 million in 2002, as the impact of claims arising from the September 11, 2001 terrorist attacks on the U.S. on 2001 benefits and expenses was partially offset by less favorable mortality experience in 2002 than that of 2001, other than the impact of those claims. A $47 million increase in amortization of deferred acquisition costs, primarily due to the market impact of declines in variable life insurance account values, was a partial offset to the aforementioned decreases in benefits and expenses.

The segment's individual annuity business reported benefits and expenses of $783 million in 2002, compared to $694 million in 2001, an increase of $89 million, or 13%. The increase reflects an increase in amortization of deferred policy acquisition costs of $87 million, which primarily includes charges for additional amortization of $137 million in 2002 and $30 million in 2001 resulting from decreases in expected future gross profits on our annuity products as discussed above. Guaranteed minimum death benefit payments increased $23 million, from $14 million in 2001 to $37 million in 2002. The guaranteed minimum death benefit feature provides annuity contract holders with a guarantee that the benefit received at death will be no less than a prescribed minimum amount. This minimum amount is based on the net deposits paid into the contract, the net deposits accumulated at a specified rate, the highest historical account value on a contract anniversary, or more typically, the greatest of these values, depending on features offered in various contracts and elected by the contract holders. These contracts generally require payment of additional charges for guarantees other than those based on net deposits paid into the contract. To the extent that the guaranteed minimum death benefit is higher than the current account value at the time of death, we incur a cost. This results in increased annuity policy benefits in periods of declining financial markets and in periods of stable financial markets following a decline. Current accounting literature does not prescribe advance recognition of the expected future net costs associated with these guarantees, and accordingly, we currently do not record a liability corresponding to these projected future obligations for death benefits in excess of annuity account values. However, we consider the expected net costs associated with these guarantees in our calculations of expected gross profits on variable annuity business, on which our periodic evaluations of unamortized deferred policy acquisition costs are based. A proposed AICPA Statement of Position, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts" (the "Proposed SOP"), would require the recording of a liability for the expected net costs associated with these guarantees under certain circumstances, if adopted as proposed. We are currently evaluating the impact of the Proposed SOP. As of December 31, 2002, the death benefit coverage in force (representing the amount that we would have to pay if all annuitants had died on that date) was approximately $3.4 billion. The death benefit coverage in force represents the excess of the guaranteed benefit amount over the fair value of the underlying mutual fund investments. Partially offsetting the increase in

amortization of deferred policy acquisition costs was lower asset management expense on our variable annuity products and a decrease in general and administrative expenses reflecting our cost management efforts.

2001 to 2000 Annual Comparison. Benefits and expenses decreased $140 million, or 6%, from 2000 to 2001. The decline reflects decreases of $72 million from individual annuities and $68 million from our individual life insurance business.

Benefits and expenses of our individual life insurance business decreased $68 million, or 4%, from $1.714 billion in 2000 to $1.646 billion in 2001. Operating expenses, including distribution costs that we charge to expense, decreased $183 million, from $761 million in 2000 to $578 million in 2001, primarily as a result of savings we began to realize from our program to restructure our field management and agency structure and lower program implementation costs which amounted to $90 million in 2001 and $107 million in 2000. Amortization of deferred policy acquisition costs increased $60 million, from $172 million in 2000 to $232 million in 2001, primarily due to declines in market values of the underlying assets on which our fees are based. Policyholder benefits and related changes in reserves increased $60 million, from $628 million in 2000 to $688 million in 2001, primarily as a result of term insurance we issued under policy provisions to customers who previously had lapsing variable life insurance with us and insurance claims arising from the September 11, 2001 terrorist attacks on the U.S. In 2000, policyholder benefits and the related changes in reserves included a reserve increase related to a portion of our variable life insurance business as noted above amounting to $23 million.

Benefits and expenses of our individual annuity business decreased $72 million, from $766 million in 2000 to $694 million 2001. Benefits and expenses for 2000 include a $21 million reduction in amortization of deferred policy acquisition costs from the refinements noted above. Excluding the impact of this change, benefits and expenses decreased $93 million, or 12%, reflecting a decrease in general and administrative expenses due to our expense management efforts. In addition, policyholder benefits and related changes in reserves decreased $43 million, from $152 million in 2000 to $109 million in 2001, primarily as a result of the $26 million reduction in premiums noted above and a $12 million charge we recorded in 2000 to increase annuity reserves due to investment portfolio restructuring to reduce the emphasis on equity investments. Amortization of deferred policy acquisition costs, excluding the refinements noted above, decreased $20 million, primarily as a result of decreased amortization associated with lower fee income.

Sales Results and Account Values

The following table sets forth the individual life insurance business sales, as measured by statutory first year premiums and deposits, and changes in account value for annuities business, for the periods indicated. Sales of the individual life insurance business do not correspond to revenues under GAAP; they are, however, a relevant measure of business activity. 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, 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. For our individual annuity business, assets are reported at account value and net sales (redemptions) are gross sales minus redemptions or surrenders and withdrawals, as applicable.

	Year Ended December 31,		
	2002	2001	2000
	(in millions)		
Sales(1):			
Excluding corporate-owned life insurance:			
Variable life	$ 153	$ 216	$ 286
Universal life	70	12	—
Term life	62	43	59
Total excluding corporate-owned life insurance	285	271	345
Corporate-owned life insurance	122	199	42
Total	$ 407	$ 470	$ 387

	Year Ended December 31,		
	2002	2001	2000
	(in millions)		
Sales by distribution channel(1)(2):			
Prudential Agents	$ 213	$ 215	$ 259
Third party	72	56	86
Total	$ 285	$ 271	$ 345
Variable Annuities(3):			
Beginning total account value	$ 18,689	$ 21,059	$ 22,614
Sales	1,395	1,271	1,809
Exchange sales(4)	—	—	481
Surrenders, withdrawals and exchange redemptions	(2,267)	(2,356)	(2,989)
Change in market value, interest credited and other activity(5)(6)	(2,479)	(1,285)	(856)
Ending total account value	$ 15,338	$ 18,689	$ 21,059
Net redemptions	$ (872)	$ (1,085)	$ (699)
Fixed Annuities:			
Beginning total account value	$ 2,975	$ 2,926	$ 3,020
Sales	605	120	221
Surrenders, withdrawals and exchange redemptions	(184)	(216)	(361)
Interest credited and other activity(5)(6)	—	145	46
Ending total account value	$ 3,396	$ 2,975	$ 2,926
Net sales (redemptions)	$ 421	$ (96)	$ (140)

(1) Statutory first year premiums and deposits.
(2) Excluding corporate-owned life insurance.
(3) Variable annuities include only those sold as retail investment products. Investments through defined contribution plan products are included with such products.
(4) Exchanges in 2000 reflect internal annuity exchanges completed under a program discontinued during 2000.
(5) Includes maintenance and insurance charges assessed, net bonus payments credited to contract holder accounts, annuity benefits and other adjustments.
(6) 2002 includes decreases in policyholder account balances 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. 2001 includes increases to policyholder account values as a result of the issuance of the policyholder credits of $429 million for variable annuities and $157 million for fixed annuities.

2002 to 2001 Annual Comparison. Sales of new life insurance, as measured by statutory first year premiums and deposits, decreased $63 million from 2001 to 2002. The decrease came from a $77 million decrease in the segment's sales of corporate-owned life insurance products, substantially all of which is sold by the third party distribution channel. A decrease of $63 million in sales of variable life insurance was more than offset by increased sales of our universal life insurance products, which we introduced in late 2001, and our term insurance products, reflecting revised product pricing. Sales by the third party distribution channel, other than corporate-owned life insurance, increased $16 million in 2002 from 2001. During 2001, we began to expand the focus of third party distribution, 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.

Life sales from Prudential Agents, excluding corporate-owned life insurance, were essentially unchanged from 2001 to 2002, as the decline in the average number of agents was largely offset by an increase in productivity. The average number of Prudential Agents declined to approximately 4,500 for 2002, compared to approximately 5,200 for 2001. The decline in the number of average agents from 2001 reflected actions we took in 2001 to increase the productivity standards required to continue agents' contracts. Prudential Agent productivity increased to $40,000 in 2002 from $35,000 in 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 no assurance, we believe that maintenance of these standards at their current level will contribute to stabilization in the number of Prudential Agents.

Total account values for fixed and variable annuities amounted to $18.7 billion as of December 31, 2002, a decrease of $3.0 billion from December 31, 2001. This decrease is due primarily to declines in market values of our variable annuities resulting from adverse market conditions as well as net redemptions. Net redemptions for 2002 were $451 million as compared to $1.2 billion in 2001. The $730 million decline in net redemptions is primarily the result of a $609 million increase in gross sales due to recent product and compensation enhancements as well as strengthening of distribution relationships.

2001 to 2000 Annual Comparison. Sales of new life insurance, as measured by statutory first year premiums and deposits, increased $83 million, or 21%, in 2001 from 2000. The increase came from a $157 million increase in the segment's sales of corporate-owned life insurance products, substantially all of which is sold by the third party distribution channel. Sales by the third party distribution channel, other than corporate-owned life insurance, decreased $30 million, or 35%, in 2001 from 2000.

Sales from Prudential Agents, excluding corporate-owned life insurance, decreased $44 million, or 17%, in 2001 from 2000. The number of Prudential Agents declined to approximately 4,400 at December 31, 2001, from 6,100 at December 31, 2000, reflecting actions taken to increase the productivity standards required to continue agency contracts. Prudential Agent productivity increased slightly to $35,000 in 2001 from $34,700 in 2000.

Total account values for fixed and variable annuities amounted to $21.7 billion as of December 31, 2001, a decrease of $2.3 billion from December 31, 2000. This decrease resulted primarily from declines in the market value of customers' variable annuities as well as net redemptions, which increased from $839 million in 2000 to $1.2 billion in 2001. The net redemptions of fixed and variable annuities in 2001 were partially offset by policy credits we issued in connection with our demutualization, which increased policyholders' account values by $586 million.

Policy Surrender Experience

The following table sets forth the individual life insurance business'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.

	Year Ended December 31,		
	2002	2001	2000
	($ in millions)		
Cash value of surrenders	$ 692	$ 637	$ 641
Cash value of surrenders as a percentage of mean future policy benefit reserves, policyholders' account balances, and separate account balances	4.2%	3.8%	3.7%

2002 to 2001 Annual Comparison. The total cash value of surrenders increased $55 million, or 9%, in 2002 from 2001. The level of surrenders as a percentage of mean future policy benefit reserves, policyholders' account balances and separate account balances increased from 2001 to 2002, reflecting an increase in lapses associated with declines in variable life insurance account values.

2001 to 2000 Annual 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 were relatively constant from 2000 to 2001.

Group Insurance

Operating Results

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

	Year Ended December 31,		
	2002	2001	2000
	(in millions)		
Operating results:			
Revenues(1)	$ 3,582	$ 3,248	$ 2,801
Benefits and expenses	3,427	3,178	2,643
Adjusted operating income	155	70	158
Realized investment losses, net	(129)	(72)	(2)
Income (loss) from continuing operations before income taxes	$ 26	$ (2)	$ 156

(1) Revenues exclude realized investment losses, net, of $129 million, $72 million and $2 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Income From Continuing Operations Before Income Taxes

2002 to 2001 Annual Comparison. Income from continuing operations before income taxes increased $28 million, from a loss of $2 million in 2001 to income of $26 million in 2002. The increase includes an increase in adjusted operating income of $85 million, to $155 million in 2002, as discussed below. Partially offsetting this was an increase in realized investment losses, net, of $57 million, to losses of $129 million in 2002. For a discussion of realized investment losses, net, see "—Consolidated Results of Operations—Realized Investment Gains."

2001 to 2000 Annual Comparison. Income from continuing operations before income taxes decreased $158 million, from $156 million in 2000 to a loss of $2 million in 2001. The decrease includes a decrease in adjusted operating income of $88 million, to $70 million in 2001, as discussed below, and an increase in realized investment losses, net, of $70 million, to losses of $72 million in 2001.

Adjusted Operating Income

2002 to 2001 Annual Comparison. Adjusted operating income increased $85 million from 2001 to 2002. Adjusted operating income for 2001 included a charge of approximately $36 million reflecting an increase in our estimate of group life insurance incurred but not reported claims. Adjusted operating income for 2002 benefited $19 million from refinements in reserve estimates recorded in the third quarter of 2002 relating to our group long-term disability product. Excluding these items, adjusted operating income increased $30 million, or 28%, from 2001 due primarily to growth in both group life and disability earned premiums and a lower benefits ratio on group disability products.

2001 to 2000 Annual Comparison. Adjusted operating income decreased $88 million, or 56%, from 2000 to 2001. The decrease came primarily from less favorable mortality experience on group life insurance in 2001, which included an increase in our estimate of incurred but not reported claims. This increase in estimate had a negative impact of approximately $36 million on our adjusted operating income for 2001. The mortality experience on group life insurance was partially offset by earned premium growth and improved morbidity on group disability products. In addition, adjusted operating income benefited $32 million in 2000 from refinements in our calculations of reserves and return premiums for waiver of premium features. However, about half of this benefit was offset during 2000, primarily by a charge to increase the allowance for receivables. An increase in operating expenses, including $12 million of consulting costs in 2001, also contributed to the decrease in adjusted operating income.

Revenues

2002 to 2001 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," increased by $334 million, or 10%, from 2001 to 2002. Group life insurance premiums increased by $217 million, or 11%, to $2.222 billion primarily due to growth in business in force resulting from new sales, as described below, and continued strong persistency, which decreased from 97% in 2001 to 95% in 2002. We believe the decrease in persistency, which is primarily a result of the pricing adjustments implemented in 2002 discussed below, will likely continue in this highly competitive market. Group disability premiums, which include long-term care products, increased by $67 million, or 13%, also reflecting the growth in business in force. Persistency decreased slightly from 89% in 2001 to 87% in 2002. Net investment income increased $31 million, or 6%, primarily due to a larger base of invested assets. 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.

2001 to 2000 Annual Comparison. Revenues increased by $447 million, or 16%, from 2000 to 2001. Group life insurance premiums increased by $350 million, or 21%, to $2.005 billion primarily due to growth in business in force resulting from new sales and continued strong persistency, which increased from 95% in 2000 to 97% in 2001. Group disability premiums, which include long-term care products, increased by $43 million, also reflecting the growth in business in force. Persistency decreased from 91% in 2000 to 89% in 2001, primarily due to the cancellation of a large case. Net investment income increased $62 million, or 13%, primarily due to a larger base of invested assets.

Benefits and Expenses

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

	Year Ended December 31,		
	2002	2001	2000
Benefits ratio(1):			
Group life	91.7%	92.6%	85.8%
Group disability	87.9	95.2	101.9
Administrative operating expense ratio(2):			
Group life	10.0	10.0	11.6
Group disability	22.0	23.6	21.0

(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 Annual Comparison. Benefits and expenses, as shown in the table above under "—Operating Results," increased by $249 million, or 8%, from 2001 to 2002. The increase resulted in large part from an increase of $213 million, or 9%, in policyholders' benefits, including the change in policy reserves. Excluding the reserve refinements noted above, policyholders' benefits increased $268 million, or 11%, 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 2002, we reviewed about 44% of our 2001 group life insurance business premiums in force and, where appropriate, implemented pricing adjustments. While there can be no assurance, we expect these actions, as well as pricing discipline in writing new business, will allow us to achieve gradual improvements in our loss ratios, although the impact has so far been limited by a highly competitive market. 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 $25 million, or 5%, in operating expenses, including amortization of deferred acquisition costs, also contributed to the increase in benefits and expenses. The increase in operating expenses, from $466 million in 2001 to $491 million in 2002, resulted primarily from the growth in business in force and related sales-based compensation costs.

The group life benefits ratio for 2002 improved 0.9 percentage points from 2001. Absent the negative impact to 2001 from the reserve refinements, the 2002 group life benefits ratio increased 0.8 percentage points reflecting higher claim incidence, primarily early in the year. The group disability benefits ratio improved by 7.3 percentage points from 2001 to 2002. The reserve refinements recorded in the third quarter of 2002 relating to our group long-term disability product represented 3.2 percentage points of the improvement. The remainder of the improvement reflects improved case resolution and our ongoing efforts to improve the quality of our underwriting and claims management processes. The group life administrative operating expense ratio remained flat from 2001 to 2002. The group disability administrative operating expense ratio improved from 2001 to 2002 reflecting the impact of our efforts to improve operational efficiencies.

2001 to 2000 Annual Comparison. Benefits and expenses increased by $535 million, or 20%, from 2000 to 2001. The increase resulted in large part from an increase of $448 million, or 22%, in policyholders' benefits, including the change in policy reserves. This increase reflected less favorable group life insurance claims experience in 2001, which included an increase in our estimate of incurred but not reported claims, as well as the growth of business in force. As a result of our reinsurance coverages, insurance losses resulting from the September 11, 2001 terrorist attacks on the U.S. did not have a material impact on our results. An increase of $64 million, or 16%, in operating expenses also contributed to the increase in benefits and expenses. The increase in operating expenses, from $402 million in 2000 to $466 million in 2001, resulted primarily from sales-based compensation costs driven by the increase in group life insurance sales. Additionally, expenses in 2001 included $12 million of consulting costs to enhance our underwriting and other business processes.

The group life benefits ratio for 2001 increased 6.8 percentage points from 2000 primarily as a result of the less favorable claims experience on our group life insurance business in 2001. About 4 percentage points of the increase in the group life benefits ratio came from the increase in estimate of incurred but not reported claims and the net impact of the refinements in reserve calculations and charge to increase the allowance for receivables in 2000. The group disability benefits ratio improved by 6.7 percentage points from 2000 to 2001 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 as well as the impact of our increase in the allowance for receivables, which contributed about 2 percentage points to the 2000 ratio. The group life administrative operating expense ratio improved 1.6 percentage points, reflecting the impact of our efforts to improve operational efficiencies. The group disability insurance administrative operating expense ratio increased 2.6 percentage points, reflecting the favorable impact, in 2000, of changes in our estimate of the administrative costs associated with settlement of pending claims.

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.

	Year Ended December 31,		
	2002	2001	2000
	(in millions)		
New annualized premiums:(1)			
Group life	$ 269	$ 435	$ 321
Group disability(2)	160	139	154
Total	$ 429	$ 574	$ 475

(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.
(2) Includes long-term care products.

2002 to 2001 Annual Comparison. Total new annualized premiums decreased $145 million, or 25%, from 2001 to 2002 due to a decrease in group life sales. The group life sales decrease came from a decrease in sales to new customers reflecting a sale of $99 million to one large customer in 2001 and the expected slowing of our sales due to the implementation of pricing adjustments in 2002, partially offset by increased sales to existing customers. Group disability sales increased in 2002 due primarily to one large fourth quarter sale.

2001 to 2000 Annual Comparison. Total new annualized premiums increased $99 million, or 21%, from 2000 to 2001, with an increase of $114 million in group life sales partially offset by a $15 million decline in group disability sales. The group life sales increase came from a small number of large sales to new and existing customers, including annualized premiums of $99 million from one sale. The group disability sales decrease reflected the benefit to 2000 results from sales opportunities resulting from the well-publicized financial difficulties of a competitor.

Property and Casualty Insurance

Operating Results

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

	Year Ended December 31,		
	2002	2001	2000
	(in millions)		
Operating results:			
Revenues(1)	$ 2,209	$ 2,051	$ 1,800
Benefits and expenses	2,199	1,956	1,650
Adjusted operating income	10	95	150
Realized investment gains (losses), net	(6)	(4)	16
Income (loss) from continuing operations before income taxes	$ 4	$ 91	$ 166

(1) Revenues exclude realized investment gains (losses), net, of $(6) million, $(4) million and $16 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Income From Continuing Operations Before Income Taxes

2002 to 2001 Annual Comparison. Income from continuing operations before income taxes decreased $87 million, from $91 million in 2001 to $4 million in 2002. The decrease reflects an $85 million decline in adjusted operating income in 2002 from 2001, as discussed below. Additionally, realized investment losses, net, increased $2 million, to losses of $6 million in 2002. For a discussion of realized investment losses, net, see "—Consolidated Results of Operations—Realized Investment Gains."

2001 to 2000 Annual Comparison. Income from continuing operations before income taxes decreased $75 million, from $166 million in 2000 to $91 million in 2001. The decrease reflects a $55 million decline in adjusted operating income in 2001 to 2000, as discussed below. Additionally, realized investment losses, net, amounted to $4 million in 2001, as compared to realized investment gains, net, of $16 million in 2000.

Adjusted Operating Income

2002 to 2001 Annual Comparison. Adjusted operating income decreased $85 million, or 89%, from 2001 to 2002. Results for 2002 reflected a $103 million lower net benefit from prior accident-year development and a $39 million lower benefit from stop-loss reinsurance recoveries. Also impacting the 2002 result was a $33 million charge to write off the goodwill associated with a reporting unit within this segment. This charge was the outcome of our annual impairment test. Partially offsetting these declines were premium increases reflecting rate increases we have implemented, and lower expenses as a result of our expense reduction efforts.

As previously announced, we are exploring options related to our personal lines property and casualty insurance business, including the possible sale of all or part of these operations, while no decision has yet been made. Based upon current market conditions, we believe that a sale of these operations would result in a charge to earnings that could be material to quarterly or annual net income, although the amount of any charge will depend on the terms of any such agreement. The Individual Life and Annuities segment is compensated for property and casualty insurance products sold through its distribution network. In the event of a sale of the property and casualty operations that resulted in continued access to non-proprietary property and casualty products by the Prudential Agents, as expected by management, the Individual Life and Annuities segment would expect to continue to be compensated for sales of these products, although the extent of these revenues cannot be predicted. In addition, certain expenses incurred at the corporate level are allocated to the Property and Casualty Insurance segment. Although we would seek to reduce the level of these expenses in the event of a sale of our property and casualty insurance business, these corporate level expenses would initially result in greater charges within adjusted operating income reported for Corporate and Other operations.

2001 to 2000 Annual Comparison. Adjusted operating income decreased $55 million, or 37%, from 2000 to 2001. Results for 2001 reflected a $59 million lower benefit from prior accident-year development. Adjusted operating income in 2000 reflected the negative impact of $40 million that we provided for premium refunds or credits to certain New Jersey automobile policyholders under that state's excess profits regulations. Partially offsetting this was a $35 million decrease in net investment income in 2001 from 2000.

In May 2000, we completed the acquisition of the specialty automobile business of the St. Paul Companies, which writes in the non-standard automobile insurance business. While, as discussed under "—Revenues" below, this acquisition had an effect on the comparison of revenues for 2001 to 2000, it did not have a material impact on adjusted operating income.

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.

	Year Ended December 31,		
	2002	2001	2000
	(in millions)		
Automobile	$ 1,547	$ 1,403	$ 1,153
Homeowners	467	448	413
Other	34	33	33
Total earned premiums	$ 2,048	$ 1,884	$ 1,599

2002 to 2001 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," increased $158 million, or 8%, from 2001 to 2002, as a result of an increase in earned premiums.

Total earned premiums, as shown in the immediately preceding table, increased by $164 million or 9% from 2001 to 2002. Automobile earned premiums increased $144 million, or 10%. The increases in automobile and homeowners' insurance earned premiums came primarily from rate increases. We plan to continue pursuing rate increases, and expect to implement rate increases in 2003 at a level generally similar to those of 2002. As discussed below under "—Benefits and Expenses," commencing in the second half of 2001 we suspended our mailing solicitations for the direct distribution channel and limited the growth of new business from certain distribution channels other than Prudential Agents, based on our evaluation of the quality of the business from these alternative channels. 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 selected markets. Since that time, we have been in the process of re-underwriting and non-renewing of business that has produced adverse loss experience, to the extent permitted contractually and by state insurance regulations.

2001 to 2000 Annual Comparison. Revenues increased $251 million, or 14%, from 2000 to 2001. The $251 million increase included an increase of $96 million in revenues from the subsidiary we acquired in May

2000 that specializes in non-standard automobile business, which is included in 2000 results only from the date of acquisition. The remaining revenue increase of $155 million, from our existing business, came primarily from a $196 million increase in earned premiums from automobile and homeowners' insurance, partially offset by a $41 million decline in investment income.

Total earned premiums increased by $285 million, or 18%, from 2000 to 2001. Excluding the impact of the acquisition mentioned above, earned premiums increased by $196 million, including the effect of a $40 million reduction in 2000 premiums from the provision for premium refunds or credits to certain New Jersey automobile policyholders, as noted above.

Automobile earned premiums increased by $250 million, or 22%, from 2000 to 2001, including $89 million from the non-standard automobile business and the effect of the $40 million reduction in 2000 premiums mentioned above. The remaining $121 million increase came primarily from new distribution channels we implemented during 1999 and 2000, including career agents focused on selling property and casualty insurance, workplace and affinity marketing, direct distribution, and independent agents, many of whom were producers for the acquired subsidiary. Improved persistency in 2001 also contributed to the growth in earned premiums.

Homeowners earned premiums increased $35 million, or 8%, from 2000 to 2001 due to lower reinsurance premiums ceded, as the number of policies in force was relatively unchanged. This stabilization of our policies in force represented an improvement compared with declines in prior years, which reflected intense rate competition that attracted customers to other companies.

Net investment income decreased by $35 million, or 18%, from $193 million in 2000 to $158 million in 2001, and decreased by $41 million excluding the impact of the acquisition mentioned above. This decrease was primarily a result of a lower average base of invested assets, reflecting lower attributed capital, and a decline in investment yield.

Benefits and Expenses

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

	Year Ended December 31,		
	2002	**2001**	**2000**
Loss ratio(1):			
Automobile	78.3%	70.6%	64.0%
Homeowners	80.2	76.5	72.4
Overall	78.7	70.8	65.8
Expense ratio(2):			
Automobile	28.0	30.8	35.3
Homeowners	32.2	36.6	45.3
Overall	29.0	32.1	37.8
Combined ratio(3):			
Automobile	106.3	101.4	99.3
Homeowners	112.4	113.1	117.7
Overall	107.7	102.9	103.6
Effect of catastrophic losses included in combined ratio(4):	1.5	2.2	2.7
Accident year combined ratio(5):	107.4	110.2	114.5

(1) Represents ratio of incurred losses and loss adjustment expenses to earned premium. Ratios reflect the net development in the calendar period from prior accident year reserves of $3 million (favorable) in the year ended December 31, 2002, $106 million (favorable) in 2001, and $165 million (favorable) in 2000. Ratios also reflect recoveries from current accident year stop-loss reinsurance contracts of $41 million in the year ended December 31, 2002 and $80 million in each of the years ended December 31, 2001 and 2000.
(2) Represents ratio of operating expenses to net written premium.
(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. Our calendar year catastrophe losses include both current and prior accident year losses. 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 U.S. 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 calendar year, restated to reflect subsequent changes in loss estimates for those claims based on cumulative loss data through December 31, 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 accidents that occur in a given period excluding the effect of accidents that occur in other periods.

2002 to 2001 Annual Comparison. Our automobile loss ratio, as shown in the table immediately above, increased from 2001 to 2002 primarily due to the lower net benefit from prior accident-year reserve development in 2002, of $72 million, and $22 million of lesser benefits from stop-loss reinsurance recoveries. During 2002, we released $68 million of reserves related to our New Jersey auto business due to continued favorable development in claim cost trends, but strengthened reserves for our non-New Jersey business by $44 million because our claims experience was less favorable than we previously estimated in establishing reserves for prior accident years. In 2001, we released $94 million of reserves related to our New Jersey business, while the results of the non-New Jersey business were not impacted significantly by changes in estimates of prior accident year loss reserves.

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 discontinued 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 selected markets. We have been 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 homeowners' business in a number of states to further reduce our exposure to catastrophes consistent with our profitability objectives.

The 3.7-point increase in the homeowners' loss ratio from 2001 to 2002 is due to a $16 million higher unfavorable development on prior accident year losses and a reduction of $11 million in stop-loss reinsurance recoveries, partially offset by $4 million lower catastrophe losses in 2002 on this business and the impact of rate increases implemented on homeowners policies.

Total calendar year catastrophe losses amounted to $31 million for 2002 compared to $42 million in 2001.

Losses that we ceded through reinsurance, including stop-loss reinsurance, resulted in decreases in the total combined ratio of 3.8 percentage points for 2002 and 7.3 percentage points for 2001.

Our overall expense ratio has continued to improve, by 3.1 percentage points from 2001 to 2002, as we benefited in 2002 from staff reductions and the favorable impact of the increased premium base.

The decrease in the accident year combined ratio resulted from the decline in the expense ratio. Recoveries from stop-loss reinsurance resulted in decreases in the accident year combined ratio of 2.0 percentage points in 2002 and 4.3 percentage points in 2001.

2001 to 2000 Annual Comparison. Our automobile loss ratio increased from 2000 to 2001 primarily due to the lower net benefit from prior accident-year reserve development in 2001. We released reserves of $106 million in 2001 and $165 million in 2000 primarily because our automobile casualty claims experience for prior years was more favorable than we previously estimated in establishing reserves for these accident years. The impact of experience on new automobile business also contributed to the increase in this ratio, since the experience on our seasoned automobile business was relatively consistent. We added significant new automobile business during 2001, primarily in the first half of the year.

The increase in the homeowners' loss ratio came from a 16% increase in claim severity and a 3% increase in claim frequency. Our stop-loss reinsurance recoveries resulted in decreases in the homeowners' combined ratio of 5.4 percentage points in 2001 and had no impact in 2000.

Our calendar year catastrophe losses, net of reinsurance, amounted to $42 million for 2001 compared to $45 million for 2000.

Losses that we ceded through reinsurance, including stop-loss reinsurance, resulted in decreases in the total combined ratio of 7.3 percentage points for 2001 and 8.3 percentage points for 2000.

Our overall expense ratio for 2001 decreased from 2000, as we incurred costs in 2000 to develop our distribution channels and benefited in 2001 from staff reductions and the favorable impact of the increased premium base.

The decrease in the accident year combined ratio resulted from the decline in the expense ratio. Recoveries from stop-loss reinsurance resulted in decreases in the accident year combined ratio of 4.3 percentage points in 2001 and 4.8 percentage points in 2000.

Investment Division

Investment Management

Operating Results

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

	Year Ended December 31,		
	2002	2001	2000
		(in millions)	
Operating results:			
Revenues(1)	$ 1,235	$ 1,357	$ 1,467
Expenses	1,096	1,216	1,262
Adjusted operating income	139	141	205
Realized investment gains (losses), net	64	(8)	1
Income from continuing operations before income taxes	$ 203	$ 133	$ 206

(1) Revenues exclude realized investment gains (losses), net, of $64 million, $(8) million and $1 million for the years ended December 31, 2002, 2001 and 2000, respectively. 2002 includes a gain of $59 million from the sale of a specialized asset management subsidiary.

Income From Continuing Operations Before Income Taxes

2002 to 2001 Annual Comparison. Income from continuing operations before income taxes increased $70 million, from $133 million in 2001 to $203 million in 2002. The increase reflects realized investment gains, net, of $64 million in 2002, as compared to losses of $8 million in 2001. For a discussion of realized investment gains (losses), net, see "—Consolidated Results of Operations—Realized Investment Gains." Adjusted operating income was essentially unchanged from 2001 to 2002, as discussed below.

2001 to 2000 Annual Comparison. Income from continuing operations before income taxes decreased $73 million, from $206 million in 2000 to $133 million in 2001. The decrease is primarily the result of a $64 million decline in adjusted operating income, as discussed below. Realized investment gains, net, were $1 million in 2000 compared to realized investment losses, net, of $8 million in 2001.

Adjusted Operating Income

2002 to 2001 Annual Comparison. Adjusted operating income for 2002 was essentially unchanged from 2001. Lower fee revenues resulting from declines in market value of the underlying equity assets under management as well as lower average mutual fund customer account balances on which our fees are based, and lower mortgage loan origination and servicing revenue were largely offset by a decrease in expenses resulting from the decline in revenue and cost saving measures implemented in 2001. We incurred $23 million and $55 million of employee termination and facilities consolidation costs in 2002 and 2001, respectively.

2001 to 2000 Annual Comparison. Adjusted operating income decreased $64 million, from $205 million in 2000 to $141 million in 2001 due primarily to lower earnings from asset management and lower asset based distribution revenues resulting from declines in market value of the underlying assets on which our fees our based. Although 2000 adjusted operating income reflected expenses related to the consolidation of substantially all of our public equity management capabilities into our Jennison unit, these expenses were largely offset by revenues from performance incentive fees that exceeded those earned in 2001.

Revenues

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

	Year Ended December 31,		
	2002	2001	2000
	(in millions)		
Revenues:			
Retail customers(1)	$ 184	$ 210	$ 244
Institutional customers	335	383	409
General account	221	227	221
Sub-total	740	820	874
Mutual fund revenues(2)	495	537	593
Total revenues	$ 1,235	$ 1,357	$ 1,467

(1) Consists of individual mutual funds and both variable annuities and variable life insurance asset management revenues 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.

(2) Represents mutual fund revenues other than asset management fees paid to affiliates, which are included in the appropriate categories above.

2002 to 2001 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," decreased $122 million, from $1.357 billion in 2001 to $1.235 billion in 2002. The decrease came from a decline of $74 million in revenues from management of institutional and retail customer assets as well as a decline of $42 million in our mutual fund revenue. The decrease in revenues from management of institutional and retail customer assets came primarily from declines in market value of the underlying equity assets under management on which our fees are based, as well as lower loan origination and servicing revenue. The decline in mutual fund revenues was the result of lower average market values of customer accounts on which our fees are based.

2001 to 2000 Annual Comparison. Revenues decreased $110 million, from $1.467 billion in 2000 to $1.357 billion in 2001. The decrease came primarily from declines of $34 million in revenues from the management of retail customer assets and $26 million from management of institutional customer assets. The decrease in revenues from management of 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. The decrease in revenues from management of institutional customer assets reflected a $25 million performance incentive fee earned in 2000. Our mutual fund revenues decreased $56 million primarily due to lower asset based distribution revenues as well as a lower level of fee producing redemptions.

Expenses

2002 to 2001 Annual Comparison. Expenses, as shown in the table above under "—Operating Results," decreased $120 million, from $1.216 billion in 2001 to $1.096 billion in 2002. The decrease primarily reflects decreases in incentive compensation expenses. Additionally, our 2002 results reflect savings associated with cost reduction initiatives implemented in 2001. In 2002 and 2001 our results reflect $23 million and $55 million, respectively, in employee termination and facility consolidation costs.

2001 to 2000 Annual Comparison. Expenses decreased $46 million, from $1.262 billion in 2000 to $1.216 billion in 2001 due primarily to a decrease in general and administrative expenses reflecting our expense management efforts and lower sales-based and asset-based compensation expense. Additionally, our 2001 results included expenses for the entire year relating to the mortgage origination and servicing activities of a subsidiary that we acquired in June 2000, while our 2000 results included approximately $40 million of expenses related to the consolidation of substantially all of our public equity management capabilities into our Jennison unit.

Financial Advisory

Operating Results

The following table sets forth the Financial Advisory segment's operating results for the periods indicated. For the years ended December 31, 2002, 2001 and 2000, there was no activity that resulted in items excluded from adjusted operating income. Therefore, results of this segment were the same on both an adjusted operating income basis and a GAAP basis.

	Year Ended December 31,		
	2002	2001	2000
	(in millions)		
Operating results:			
Non-interest revenues	$ 2,280	$ 2,495	$ 3,090
Net interest revenues	175	256	310
Total revenues, net of interest expense	2,455	2,751	3,400
Total non-interest expenses	2,496	2,887	3,001
Adjusted operating income	$ (41)	$ (136)	$ 399

In February 2003, we announced an agreement with Wachovia Corporation ("Wachovia") to combine each company's respective retail securities brokerage and clearing operations to form a new firm, which will be headquartered in Richmond, VA. Under the agreement we will have a 38% ownership interest in the new firm, which we will account for under the equity method of accounting, while Wachovia will own the remaining 62%. The transaction, which includes our securities brokerage operations, but does not include equity sales, trading and research operations or our consumer banking operations, is anticipated to close in the third quarter of 2003. This transaction is subject, among other things, to regulatory approvals and filings and customary closing conditions.

Adjusted Operating Income

2002 to 2001 Annual Comparison. The Financial Advisory segment reported losses, on an adjusted operating income basis, of $41 million for 2002 and $136 million for 2001. The $95 million decline in the segment's loss came primarily from reduced losses in our securities brokerage operations, which reported a loss of $87 million for 2002 as compared to a loss of $180 million for 2001. These operations incurred costs of $38 million in 2002 and $65 million in 2001 to reduce staffing levels, occupancy and other overhead costs. The reduction in the loss reflects lower non-interest expenses resulting from these actions, as well as the $27 million decrease in implementation costs, which together more than offset the negative impact of the continued decline in retail client commissions and net interest revenue. Adjusted operating income from our equity sales and trading operations increased $4 million, to $44 million for 2002. Adjusted operating income for 2001 included $20 million that Prudential Securities earned as co-manager in the initial public offering of our Common Stock during the fourth quarter of 2001, which is offset by a corresponding charge in our Corporate and Other results.

The improved results of our equity sales and trading operations are due primarily to our cost reduction initiatives and a decrease in costs associated with implementing these initiatives, from $15 million in 2001 to $5 million in 2002.

2001 to 2000 Annual Comparison. The Financial Advisory segment reported a loss of $136 million, on an adjusted operating income basis, for 2001 compared to adjusted operating income of $399 million for 2000. The $535 million decline came primarily from a $442 million decrease from our securities brokerage operations, which reported a loss of $180 million for 2001 compared to adjusted operating income of $262 million in 2000. These operations were adversely affected in 2001 by a decline in individual investor transaction volume and margin loan balances, which resulted in decreased commission and net interest revenues. These revenue declines were coupled with increased costs of recruiting and retaining Financial Advisors, including increased expenses relating to recruiting and retention incentives extended to experienced Financial Advisors. Additionally, we incurred costs of $65 million in 2001 from employee terminations associated with staff reductions, as well as branch closings and facilities consolidations. Adjusted operating income from our equity sales and trading operations decreased $50 million from $90 million in 2000, to $40 million in 2001. Adjusted operating income for 2001 included $20 million that Prudential Securities earned as co-manager in the initial public offering of our Common Stock, as discussed above. The decrease in adjusted operating income reflected a decline in our revenues from principal trading activities supporting retail and institutional customers as well as increased costs from employee terminations associated with staff reductions and facilities consolidations. The remaining $43 million decrease in the segment's adjusted operating income came from our consumer banking operations, which benefited in 2000 from the sale of a major portion of the consumer bank's credit card receivables.

Revenues

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

	Year Ended December 31,		
	2002	2001	2000
		(in millions)	
Commissions	$ 1,383	$ 1,525	$ 1,985
Fees	750	758	825
Other	147	212	280
Total non-interest revenues	2,280	2,495	3,090
Net interest revenues	175	256	310
Total revenues, net of interest expense	$ 2,455	$ 2,751	$ 3,400

2002 to 2001 Annual Comparison. Total revenues, net of interest expense, as shown in the table above under "—Operating Results," decreased $296 million from 2001 to 2002. The decrease came primarily from a $248 million decline in revenues from our securities brokerage operations, from $2.303 billion in 2001 to $2.055 billion in 2002.

Commission revenues decreased $142 million from 2001 to 2002. The decrease came from a $154 million decline in commissions in our securities brokerage operations, from $1.200 billion in 2001 to $1.046 billion in 2002, due primarily to a decline in over-the-counter and listed equity securities transactions. Commission revenues continue to be negatively affected by less active securities markets and reduced client transaction volume. The decrease in commissions in our securities brokerage operations was partially offset by an increase of $12 million from our equity sales and trading operations. Commission revenue for 2001 included $10 million that Prudential Securities received as co-manager in the initial public offering of our Common Stock. The improvement for 2002 is the result of increased over-the-counter equity commissions from our institutional customers.

Fee revenues, which include asset management and account service fees, were essentially unchanged from 2002 to 2001. Fee revenues benefited from new assets gathered in the wrap-fee and managed accounts, as well as

an increase in account service fees, reflecting a revised pricing schedule implemented at the beginning of 2002. However, the negative impact of market value declines on wrap-fee managed account assets under management, competitive pricing pressures, changes in product mix and market value declines on clients' mutual funds, on which a portion of our fees are based, offset these improvements. Fee revenues accounted for 33% of total non-interest revenues in 2002, compared to 30% in 2001, reflecting the decrease in commission revenues and actions we have taken to increase the contribution of recurring revenues.

Other revenues decreased $65 million from 2001 to 2002. The decrease is primarily attributable to our equity sales and trading operations, which included $12 million in fee revenue received in 2001 as co-manager in the initial public offering of our Common Stock. The reduced trading revenues we experienced primarily reflected reduced trading spread in the equities securities markets.

Net interest revenues decreased $81 million from 2001 to 2002, primarily as a result of a decrease in average customer margin lending and other customer related balances of our securities brokerage operations, reflecting the reduced level of individual investor activity. Average customer margin lending balances were $2.9 billion in 2002 compared to $4.4 billion in 2001.

The number of retail Financial Advisors was 4,377 at December 31, 2002, a decrease of 22% from 5,585 at December 31, 2001. The majority of the decline from 2001 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 $37 billion to $220 billion at December 31, 2002 from $257 billion at December 31, 2001, primarily as a result of overall market value declines.

2001 to 2000 Annual Comparison. Total revenues, net of interest expense, decreased $649 million, or 19%, from 2000 to 2001. The decrease came primarily from a $517 million decline in revenues from our securities brokerage operations, from $2.820 billion in 2000 to $2.303 billion in 2001.

Commission revenues decreased $460 million, or 23%, from 2000 to 2001. The decrease came from a $420 million decline in commissions in our securities brokerage operations from $1.620 billion in 2000 to $1.200 billion in 2001. This decrease is primarily from over-the-counter and listed equity securities transactions. Commission revenues were negatively affected in 2001 by less active securities markets and reduced retail transaction volume, and benefited in 2000 from exceptionally active over-the-counter equity markets and related retail transaction volume in the first four months of the year. Commissions from our equity sales and trading operations decreased $40 million from $365 million in 2000 to $325 million in 2001, which included revenues of $10 million that Prudential Securities received as co-manager in the initial public offering of our Common Stock. Commission revenues in 2000 benefited from exceptionally active equity securities markets during the first four months of the year.

Fee revenues, which include asset management and account service fees, declined $67 million, or 8%, from 2000 to 2001. The decline came from 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 impact of new assets gathered in these accounts. Additionally, the negative impact of market value declines on clients' mutual funds, on which a portion of our fees are based, contributed to the decline in fee revenues.

Other revenues decreased $68 million, or 24%, from 2000 to 2001. This decrease came primarily from declines of $43 million in our equity sales and trading operations and $36 million in our consumer banking operations. Revenues in our equity sales and trading operations in 2001, which included $12 million associated with the initial public offering of our Common Stock, were negatively affected by reduced revenues from principal trading supporting retail and institutional customers, while 2000 revenues benefited from exceptionally active equity securities markets during the first four months of the year. The decrease for the consumer banking operations is due primarily to the sale of a major portion of the consumer bank's credit card receivables in 2000.

Net interest revenues decreased $54 million, or 17%, from 2000 to 2001, primarily as a result of a decrease in average customer margin lending balances of our securities brokerage operations, related to the reduced level of individual investor activity. Average customer margin lending balances were $4.4 billion in 2001 compared to $6.6 billion in 2000. Increased investment income on greater attributed capital partially offset the impact of lower average customer margin lending balances.

The number of retail Financial Advisors was 5,585 at December 31, 2001, a decrease of 8% from 6,103 at December 31, 2000. Approximately 90% of the decline came from Financial Advisors with less than 4 years' industry experience with us, and reflected a decrease in our recruiting of inexperienced Financial Advisors to be trained by us.

Assets under management and client assets decreased $21 billion to $257 billion at December 31, 2001 from $278 billion at December 31, 2000, primarily as a result of overall market value declines.

Non-Interest Expenses

2002 to 2001 Annual Comparison. Total non-interest expenses, as shown in the table above under "—Operating Results," decreased $391 million, or 14%, from 2001 to 2002. Non-interest expenses included costs incurred to reduce staffing levels, occupancy and other overhead costs of $65 million at our securities brokerage operations and $15 million attributable to our equity sales and trading operations in 2001, compared to 2002 amounts of $38 million for securities brokerage operations and $5 million for equity sales and trading 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.

2001 to 2000 Annual Comparison. Total non-interest expenses decreased $114 million from 2000 to 2001. Non-interest expenses for our securities brokerage operation decreased due to the lower level of revenues and earnings in 2001, but the decrease was not proportional to the revenue decline largely due to the recruiting and retention incentives as described above as well as $65 million in costs to reduce staffing levels, occupancy and other overhead costs incurred in 2001. Non-interest expenses for our equity sales and trading operations decreased from $398 million in 2000 to $369 million in 2001, reflecting decreased compensation expenses driven by the declines in revenue and earnings as well as $15 million in costs to reduce staffing levels, occupancy and other overhead costs incurred in 2001.

Retirement

Operating Results

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

	Year Ended December 31,		
	2002	**2001**	**2000**
		(in millions)	
Operating results:			
Revenues(1)	$ 2,359	$ 2,394	$ 2,624
Benefits and expenses(2)	2,218	2,284	2,437
Adjusted operating income	141	110	187
Realized investment losses, net, and related charges	(376)	(86)	(116)
Income (loss) from continuing operations before income taxes	$ (235)	$ 24	$ 71

(1) Revenues exclude realized investment losses, net, of $383 million, $100 million, and $85 million for the years ended December 31, 2002, 2001, and 2000, respectively.
(2) Benefits and expenses exclude the impact of net realized investment gains and losses on change in reserves and deferred policy acquisition cost amortization of $(7) million, $(14) million, and $31 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Income from Continuing Operations Before Income Taxes

2002 to 2001 Annual Comparison. The segment's loss from continuing operations before income taxes was $235 million in 2002 compared to income of $24 million in 2001. The decrease from 2001 reflects an increase in realized investment losses, net, and related charges of $290 million, partially offset by a $31 million increase in adjusted operating income as discussed below. For a discussion of realized investment losses, net, and related charges see "—Consolidated Results of Operations—Realized Investment Gains."

2001 to 2000 Annual Comparison. Income from continuing operations before income taxes decreased $47 million, from $71 million in 2000 to $24 million in 2001. This decrease reflects a $77 million decline in adjusted operating income, as discussed below, partially offset by a decline in realized investment losses, net, and related charges of $30 million, from $116 million in 2000 to $86 million in 2001.

Adjusted Operating Income

2002 to 2001 Annual Comparison. Adjusted operating income increased $31 million, or 28%, in 2002 from 2001 reflecting an increase in adjusted operating income of $26 million from our guaranteed products business and a $5 million reduction in the loss from our full service defined contribution business.

Our guaranteed products business reported adjusted operating income of $165 million in 2002. The increase reflects income in 2002 of $30 million from a mortgage loan prepayment and the recording of a $29 million charge to recognize increased estimates of policy liabilities in 2001. Absent the impact of these items, adjusted operating income decreased $33 million, or 20%, mostly due to lower investment results in 2002.

2001 to 2000 Annual Comparison. Adjusted operating income decreased $77 million, or 41%, in 2001 from 2000. Adjusted operating income benefited $64 million in 2000 primarily from refinements in our annuity reserves. Excluding this change, adjusted operating income decreased $13 million, or 11%. The $13 million decrease came from a decrease in adjusted operating income of $26 million from our guaranteed products business, partially offset by a $13 million reduction in losses from our full service defined contribution business.

Our guaranteed products business reported adjusted operating income of $139 million in 2001, a decrease of $26 million from 2000 adjusted operating income, excluding the impact of the annuity reserve refinements noted above. Results from this business in 2000 were negatively affected by a $56 million charge we recorded to increase reserves for our structured settlement products as a result of our restructuring of the investment portfolio supporting these products to reduce the emphasis on equity investments, and we also recorded charges amounting to $26 million during that year to establish reserves for guaranteed benefits on several separate account contracts. However, the impact of the foregoing items was largely offset by less favorable mortality experience in 2001, and, during the first nine months of 2001, we recorded approximately $29 million of increased estimates of policy liabilities relating to prior periods. This business was also adversely affected by the gradual runoff of our general account products, including general account GIC business.

Our full service defined contribution business, which benefited from lower expense levels in 2001, reported a loss of $29 million on an adjusted operating income basis compared to a loss of $42 million in 2000.

Revenues

2002 to 2001 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," decreased $35 million from 2001 to 2002. Net investment income decreased $74 million, or 3%, from $2.148 billion in 2001 to $2.074 billion in 2002. The decrease in net investment income is due to a decline in yields on invested assets, partially offset by $30 million of income from a mortgage loan prepayment. Premiums increased $57 million on our guaranteed products business primarily due to increased sales of structured settlement and single sum products and the recording of increased estimates of policy liabilities for return premiums in 2001.

2001 to 2000 Annual Comparison. Revenues decreased $230 million, or 9%, from 2000 to 2001. Net investment income decreased $159 million, or 7%, from $2.307 billion in 2000 to $2.148 billion in 2001 reflecting lower yields as well as the gradual runoff of our general account products, including general account

GIC business. Premiums, policy charges and fees decreased $49 million, from $149 million in 2000 to $100 million in 2001, reflecting lower sales of general account group annuity products.

Benefits and Expenses

2002 to 2001 Annual Comparison. Benefits and expenses, as shown in the table above under "—Operating Results," decreased $66 million, or 3%, from 2001 to 2002. Policyholders' benefits, together with the change in policy reserves and interest credited to policyholders, decreased $32 million from 2001 to 2002 reflecting the decline in yields and increased estimates on policy liabilities recorded in 2001. These items were partly offset by the increase in premium activity noted above. Operating expenses for our defined contribution business decreased $21 million due primarily to cost reduction measures implemented in prior periods.

2001 to 2000 Annual Comparison. Benefits and expenses decreased $153 million, or 6%, from 2000 to 2001. This decrease includes the effect of refinements in our annuity reserves in 2000 as noted above. Excluding this change, benefits and expenses decreased $217 million, or 9%. Policyholders' benefits together with the change in policy reserves and interest credited to policyholders, decreased $128 million in 2001 from 2000, excluding the effect of the 2000 refinement in annuity reserves. The decrease reflected our maturing block of group annuity business and the decline in premiums mentioned above. In addition, operating expenses for our defined contribution business decreased $39 million due primarily to cost reduction measures implemented in prior periods. Interest expense decreased $31 million from 2000 to 2001 as a result of a lower level of investment-related borrowing and lower borrowing rates.

Sales Results and Account Values

The following table shows the changes in the account values and net sales of Retirement segment products for the periods indicated. Net sales are total sales minus withdrawals or withdrawals and benefits, as applicable. As noted above under "—Insurance Division—Individual Life and Annuities—Sales Results and Account Values," neither sales nor net sales are revenues under GAAP.

	Year Ended December 31,		
	2002	2001	2000
		(in millions)	
Defined Contribution:			
Beginning total account value	$ 24,640	$ 26,046	$ 25,788
Sales	3,858	3,689	5,439
Withdrawals	(3,248)	(3,422)	(3,937)
Change in market value, interest credited and other activity(1)	(2,336)	(1,673)	(1,244)
Ending total account value	$ 22,914	$ 24,640	$ 26,046
Net sales	$ 610	$ 267	$ 1,502
Guaranteed Products(2):			
Beginning total account value	$ 39,825	$ 41,577	$ 41,757
Sales	1,467	2,299	2,024
Withdrawals and benefits	(3,590)	(4,372)	(5,279)
Change in market value and interest income	2,166	2,198	2,997
Other(3)	(810)	(1,877)	78
Ending total account value	$ 39,058	$ 39,825	$ 41,577
Net sales	$ (2,123)	$ (2,073)	$ (3,255)

(1) The year ended December 31, 2002 includes increases to account values of $360 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. The year ended December 31, 2001 includes increases to account values of $433 million added to customer accounts due to Common Stock received as demutualization consideration.

(2) Prudential's retirement plan accounted for 32%, 29% and 27% of sales for the years ended December 31, 2002, 2001 and 2000, respectively. This sales activity predominantly represents repricing of scheduled maturities. These scheduled maturities are also reflected in withdrawals and therefore have no impact on net sales. Ending total account value includes assets of Prudential's retirement plan of $8.5 billion, $9.1 billion and $8.2 billion at December 31, 2002, 2001 and 2000, respectively.

(3) Represents changes in asset balances for externally managed accounts. The year ended December 31, 2001 includes an increase to policyholder account values of $181 million representing cumulative conversions of client balances to products currently included in the business.

2002 to 2001 Annual Comparison. Account values in our full service defined contribution business amounted to $22.9 billion at December 31, 2002, a decrease of $1.7 billion, or 7%, 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. This decline was partially offset by net sales of $610 million and $808 million added to customer accounts from inclusion of amounts not previously reflected in this segment and Common Stock received as demutualization consideration.

Account values for guaranteed products amounted to $39.1 billion at December 31, 2002, a decrease of $767 million, or 2%, from December 31, 2001.

2001 to 2000 Annual Comparison. Account values in our full service defined contribution business amounted to $24.6 billion at December 31, 2001, a decrease of $1.4 billion, or 5%, from December 31, 2000. This decrease is primarily due to a decline in market value of mutual funds reflecting the general downturn in the equity markets. In addition, net sales decreased $1.2 billion in 2001 from 2000, reflecting a decrease in new institutional clients.

Account values for guaranteed products amounted to $39.8 billion at December 31, 2001, a decrease of $1.8 billion, or 4%, from December 31, 2000. The decrease from December 31, 2000 is primarily due to a decrease in separate account annuity assets that reflected approximately $1.4 billion of annuity benefits.

Other Asset Management

Operating Results

The following table sets forth the Other Asset Management segment's operating results for the periods indicated. For the years ended December 31, 2002, 2001 and 2000, there was no activity that resulted in items excluded from adjusted operating income. Therefore, results of this segment were the same on both an adjusted operating income basis and a GAAP basis.

	Year Ended December 31,		
	2002	2001	2000
	(in millions)		
Operating results:			
Revenues	$ 90	$ 105	$ 66
Expenses	45	50	24
Adjusted operating income	$ 45	$ 55	$ 42

Adjusted Operating Income

2002 to 2001 Annual Comparison. Adjusted operating income decreased $10 million from $55 million in 2001 to $45 million in 2002. Increases in adjusted operating income from our commercial mortgage securitization operation and proprietary investment and syndication activities were more than offset by a decline in the adjusted operating income of our hedge portfolios, which were significantly reduced in size during 2002 and held assets of $2.7 billion as of December 31, 2002.

2001 to 2000 Annual Comparison. Adjusted operating income increased $13 million, from $42 million in 2000 to $55 million in 2001. The increase came primarily from our commercial mortgage securitization operations, which benefited from changes in market value of financial instruments held pending securitizations. As of December 31, 2001, the hedge portfolios held assets, including both principal positions and securities financing positions, of approximately $3.9 billion, compared to $7.9 billion at December 31, 2000.

Revenues

2002 to 2001 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," decreased $15 million, from $105 million in 2001 to $90 million in 2002. The decrease was primarily due to the reduction in our hedge portfolios partially offset by an increase in revenue associated with our proprietary investment and syndication activities.

2001 to 2000 Annual Comparison. Revenues increased $39 million, from $66 million in 2000 to $105 million in 2001. The increase in revenue was due primarily to a $21 million increase in revenue associated with our commercial mortgage securitization operations, which benefited from a change in market value of financial instruments held pending securitizations. Additionally, our results for 2001 included $15 million in revenues associated with our proprietary investment and syndication activities.

Expenses

2002 to 2001 Annual Comparison. Expenses, as shown in the table above under "—Operating Results," decreased $5 million, from $50 million in 2001 to $45 million in 2002. The decrease in expenses was due to lower origination and underwriting expenses associated with our commercial mortgage securitization operations resulting from lower production, and lower expenses associated with our hedge portfolios. These expense reductions were partially offset by higher expenses related to our proprietary investment and syndication activities.

2001 to 2000 Annual Comparison. Expenses increased $26 million, from $24 million in 2000 to $50 million in 2001. The increase was due to $19 million in expenses associated with our proprietary investment and syndication activities and a $7 million increase in expenses associated with our commercial mortgage securitization operations.

International Insurance and Investments Division

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 three years ended December 31, 2002. The financial results of our International Insurance segment reflect the impact of forward currency transactions and internal hedges, whereby some currency fluctuation exposure is assumed in our Corporate and Other operations. These hedging transactions increased international insurance revenues by $32 million in 2002, $45 million in 2001, and $19 million in 2000. An integral element in the management of this exposure is the execution by Corporate and Other operations of forward currency transactions with independent counterparties. Unless otherwise stated, we have translated all information in this section, including the impact of the aforementioned currency hedging transactions, on the basis of actual exchange rates for the years indicated. 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, 2002.

Operating Results

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

	Year Ended December 31,		
	2002	2001	2000
	(in millions)		
Operating results:			
Revenues(1):			
International Insurance, excluding Gibraltar Life	$ 2,379	$ 2,120	$ 1,920
Gibraltar Life	2,694	2,026	—
	5,073	4,146	1,920
Benefits and expenses:			
International Insurance, excluding Gibraltar Life	2,000	1,771	1,624
Gibraltar Life(2)	2,316	1,764	—
	4,316	3,535	1,624
Adjusted operating income	757	611	296
Realized investment gains (losses), net, excluding Gibraltar Life	5	(32)	(15)
Realized investment losses, net, and related charges, Gibraltar Life	(178)	(25)	—
	(173)	(57)	(15)
Income from continuing operations before income taxes	$ 584	$ 554	$ 281

(1) Revenues, excluding Gibraltar Life, exclude realized investment gains (losses), net, of $5 million, $(32) million, and $(15) million for the years ended December 31, 2002, 2001 and 2000. Revenues for Gibraltar Life exclude realized investment gains (losses), net, of $(162) million and $(25) million for the years ended December 31, 2002 and 2001.

(2) Benefits and expenses for Gibraltar Life for the year ended December 31, 2002 exclude the portion of net realized investment gains required to be paid as dividends to policyholders of $16 million. Gibraltar Life had no such activity for the year ended December 31, 2001.

Income from Continuing Operations Before Income Taxes

2002 to 2001 Annual Comparison. Income from continuing operations before income taxes increased $30 million, from $554 million in 2001 to $584 million in 2002. This increase reflects a $146 million increase in adjusted operating income, from $611 million in 2001 to $757 million in 2002, as discussed below, partially offset by a $116 million increase in realized investment losses, net, and related charges, from $57 million in 2001 to $173 million in 2002. For a discussion of realized investment losses, net, and related charges see "—Consolidated Results of Operations—Realized Investment Gains."

2001 to 2000 Annual Comparison. Income continuing operations before income taxes increased $273 million, from $281 million in 2000 to $554 million in 2001. This increase reflects a $315 million increase in adjusted operating income, from $296 million in 2000 to $611 million in 2001, as discussed below, partially offset by a $42 million increase in realized investment losses, net, and related charges, from $15 million in 2000 to $57 million in 2001.

Adjusted Operating Income

2002 to 2001 Annual Comparison. Adjusted operating income increased $146 million from 2001 to 2002, including a $116 million greater contribution from Gibraltar Life for which the year 2001 includes only its initial eight months of reported results, from the April 2, 2001 date of its reorganization through November 30, 2001.

Adjusted operating income for Gibraltar Life increased $116 million from $262 million for the initial eight months of operations in 2001, which included a $56 million gain from policy surrenders associated with the initial period of operations after restructuring, to $378 million for 2002. Gibraltar Life's adjusted operating income of $378 million for 2002 reflects charges from refinements of estimates, primarily of amounts due to

policyholders, and lower surrender gains due to more favorable persistency. The impact of these items was offset primarily by favorable mortality experience and a decrease in the estimated liability for guaranty fund assessments.

Gibraltar Life's $378 million adjusted operating income reported for 2002 reflected revenues of $2.694 billion and benefits and expenses of $2.316 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 $2.150 billion of premiums and policy charges and fees, and $500 million of net investment income. Benefits and expenses were comprised of $1.629 billion of policyholders' benefits, including changes in reserves, $89 million in interest credited to policyholders' account balances, $101 million in dividends to policyholders and $497 million of general and administrative expenses, including distribution costs. As a result of Gibraltar Life's emergence from reorganization proceedings in April of 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 commencing at the date of reorganization were 6% in the first year and 4% thereafter for paid-up policies and range from 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 2002 was reduced by $21 million from the deviation of policy surrenders from our initial assumptions. In addition, Gibraltar Life's results for 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 $30 million from $349 million in 2001 to $379 million in 2002. The increase came from improved results both from our Japanese insurance operation and our operations in countries other than Japan. Adjusted operating income from our Japanese insurance operation increased $7 million, from $335 million in 2001 to $342 million in 2002. The contribution from continued growth of our existing Japanese insurance operation was partially offset in 2002 by a $19 million negative impact of currency fluctuations, 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 adjusted operating income from operations in countries other than Japan increased $23 million, from $14 million in 2001 to $37 million in 2002, as increased profits from our operation 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 operation. Excluding the impact of the currency fluctuations, our international insurance operations other than Gibraltar Life would have had a 20% increase in adjusted operating income over the prior year.

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 $165 million.

2001 to 2000 Annual Comparison. Adjusted operating income increased $315 million from 2000 to 2001. Results of Gibraltar Life, which we include in our results from April 2, 2001, the date of its reorganization, through November 30, 2001, contributed $262 million to the increase in adjusted operating income. The International Insurance segment reported adjusted operating income of $172 million for the fourth quarter of 2001, including $77 million from Gibraltar Life.

The $262 million adjusted operating income reported by Gibraltar Life reflected revenues of $2.026 billion and benefits and expenses of $1.764 billion. Gibraltar Life's revenues were comprised primarily of $1.710 billion of premiums, policy charges and fees, and $304 million net investment income, and its benefits and expenses were comprised primarily of $1.358 billion of policy benefits including changes in reserves, interest credited to policyholders' account balances and dividends to policyholders and $406 million of general and administrative expenses. Gibraltar Life's adjusted operating income for the initial eight-month period included in our results

benefited from gains on policy surrenders of about $56 million, including about $6 million in the three months ended November 30, 2001. Substantially all of this contribution to adjusted operating income resulted from a high level of surrenders due to customer response to the initial impact of policy changes introduced as part of Gibraltar Life's reorganization.

Adjusted operating income, excluding the impact of the Gibraltar Life acquisition discussed above, increased $53 million, or 18%, from 2000 to 2001. Adjusted operating income for 2001 benefited $8 million from a refinement in the methodology used to calculate reserves in our Korean operations. Excluding this item, adjusted operating income increased $45 million, or 15%. The increase came from improved results both from our operations in countries other than Japan and our Japanese insurance operations. Our operations in countries other than Japan contributed adjusted operating income of $6 million for 2001, excluding the reserve refinement, compared to an operating loss of $19 million for 2000, as increased profits from our operations in Korea and Taiwan more than offset continued costs associated with our expansion into additional countries. Our Japanese insurance operations reported continuing improved results, with adjusted operating income of $335 million in 2001 compared to $315 million in 2000, due to strong persistency and new sales, partially offset by a negative impact of about $24 million from currency fluctuations and less favorable mortality experience.

The segment's increase in adjusted operating income includes the unfavorable 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 $323 million.

Revenues

2002 to 2001 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," increased $927 million from $4.146 billion in 2001 to $5.073 billion in 2002, including a $668 million increase from Gibraltar Life. Excluding the impact of Gibraltar Life, revenues increased $259 million, or 12%, from $2.120 billion in 2001 to $2.379 billion in 2002. The $259 million increase in revenues came primarily from an increase in premium revenue of $251 million, or 14%, from $1.832 billion in 2001 to $2.083 billion in 2002. Premiums from our Korean operation increased $154 million, from $285 million in 2001 to $439 million in 2002, and premiums in our Japanese operation other than Gibraltar Life increased $75 million primarily the result of strong persistency and new sales partially offset by the impact of currency exchange rate fluctuations. Premium revenue in all other countries increased $22 million from 2001 to 2002. On a constant exchange rate basis and excluding the impact of currency hedging, total segment revenues increased $1.041 billion, or 26%, from 2001 to 2002, for which the year-ago period includes the initial eight months of activity of Gibraltar Life. Excluding Gibraltar Life, total segment revenues on a constant exchange rate basis and excluding the impact of currency hedging increased $334 million, or 16 %.

2001 to 2000 Annual Comparison. Revenues increased $2.226 billion from 2000 to 2001, including $2.026 billion from Gibraltar Life. Excluding the impact of the Gibraltar Life acquisition, revenues increased $200 million, or 10%, from 2000 to 2001. The $200 million increase in revenues came primarily from an increase in premium revenue of $152 million, or 9%, from $1.680 billion in 2000 to $1.832 billion in 2001. Premiums from our Korean operations increased $97 million, from $188 million in 2000 to $285 million in 2001, as a result of increased sales and strong persistency. Premium revenue in all other countries increased $55 million, from $1.492 billion in 2000 to $1.547 billion in 2001, primarily as a result of continued strong persistency and new sales in Japan and Taiwan. On a constant exchange rate basis and excluding the impact of currency hedging, total segment revenues increased $2.369 billion, from 2000 to 2001.

Benefits and Expenses

2002 to 2001 Annual Comparison. Benefits and expenses, as shown in the table above under "—Operating Results," increased $781 million from $3.535 billion in 2001 to $4.316 billion in 2002, including a $552 million increase from Gibraltar Life. Excluding the impact of the Gibraltar Life acquisition, benefits and expenses increased $229 million, or 13%, from $1.771 billion in 2001 to $2.000 billion in 2002. The $229 million increase in benefits and expenses came primarily from an increase of $164 million in policyholders' benefits, which includes the change in reserves for future policy benefits, and an increase of $56 million in amortization of

deferred policy acquisition costs. Policyholders' benefits increased from $1.382 billion in 2001 to $1.546 billion in 2002. The increase reflected a 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 $876 million.

2001 to 2000 Annual Comparison. Benefits and expenses increased $1.911 billion from 2000 to 2001, including $1.764 billion from Gibraltar Life. Excluding the impact of the Gibraltar Life acquisition, benefits and expenses increased $147 million, or 9%, from 2000 to 2001. The $147 million increase in benefits and expenses came primarily from an increase of $120 million in policyholders' benefits, which includes the change in reserves for future policy benefits. Policyholders' benefits increased from $1.268 billion in 2000 to $1.388 billion in 2001, primarily as a result of 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. On a constant exchange rate basis, total segment benefits and expenses increased $2.046 billion.

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 Annual Comparison. New annualized premiums increased $51 million from $692 million in 2001 to $743 million in 2002, including an increase of $123 million from Gibraltar Life and reflecting the unfavorable impact of currency exchange rate fluctuations. On a constant exchange rate basis, new annualized premiums increased $65 million from 2001 to 2002, including an increase of $127 million from Gibraltar Life. On that basis, new annualized premiums from our operation in Japan were $541 million in 2002, including $234 million from Gibraltar Life, compared to $467 million in 2001 when Gibraltar Life's sales force sold policies for our existing Japanese insurance operation during a portion of the year, 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 2001 were particularly strong due to anticipated premium rate increases that took effect on April 1, 2001 and October 1, 2001. Sales in all other countries, also on a constant exchange rate basis, decreased $9 million as a result of a decrease from our operations in Taiwan and Korea, where 2002 sales were affected by premium rate increases in 2001.

2001 to 2000 Annual Comparison. New annualized premiums increased $183 million, or 36%, from $509 million in 2000 to $692 million in 2001, including $110 million from Gibraltar Life and reflecting the unfavorable impact of currency exchange rate fluctuations. On a constant exchange rate basis, new annualized premiums increased $237 million, or 54%, from 2000 to 2001, including $107 million from Gibraltar Life. On that basis, new annualized premiums from our operations other than Gibraltar Life increased $130 million, or 29%. The $130 million increase included $51 million from our existing operation in Japan, reflecting an increase in the number of Life Planners from 1,811 at December 31, 2000 to 1,992 at December 31, 2001 as well as $25 million of new annualized premiums sold by the Gibraltar Life sales force for our existing operation prior to the acquisition date. After that date, the Gibraltar Life sales force has distributed only Gibraltar products. For all countries other than Japan, also on a constant exchange rate basis, new annualized premiums increased $79 million, or 59%, with $78 million of the increase coming from our operations in Korea and Taiwan. The increase in countries other than Japan reflects an increase in the number of Life Planners, from 1,684 at December 31, 2000 to 2,112 at December 31, 2001, as well as an increase in Life Planner productivity.

Investment Margins and Other Profitability Factors

Many of our insurance products sold in international markets provide for the buildup of cash values for the policyholder at mandated guaranteed interest rates. 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, morbidity and expense charges. 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 results in our charging 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 operation other than Gibraltar Life in 2002 and 2001, and the profitability of these products in Japan continues to result primarily from margins on mortality, morbidity, and expense charges. 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 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 most countries in which we operate on mandated mortality tables. Our mortality experience in the International Insurance segment on an overall basis for 2002 and 2001 was well within our pricing assumptions and below the guaranteed levels reflected in the premiums we charge.

International Investments

Operating Results

The following table sets forth the International Investments segment's operating results for the periods indicated. For the years ended December 31, 2002, 2001 and 2000, there was no activity that resulted in items excluded from adjusted operating income. Therefore, results of this segment were the same on both an adjusted operating income basis and a GAAP basis.

	Year Ended December 31,		
	2002	2001	2000
	(in millions)		
Operating results:			
Revenues	$ 327	$ 303	$ 355
Expenses	337	344	379
Adjusted operating income	$ (10)	$ (41)	$ (24)

Adjusted Operating Income

2002 to 2001 Annual Comparison. Our International Investments segment reported a loss, on an adjusted operating income basis, of $10 million for 2002 compared to a loss of $41 million in 2001. The $31 million reduction in the loss reflected earnings from recently acquired units and lower expenses resulting from our earlier actions to reduce the cost structure.

2001 to 2000 Annual Comparison. The International Investments segment reported a loss, on an adjusted operating income basis, of $41 million in 2001 compared to $24 million for 2000 as 2000 results included a $17 million gain from our interest in the conversion of London Stock Exchange and Hong Kong Stock and Futures Exchange seats into listed shares and trading rights in 2000. Additionally, revenue growth was partially offset by expenses associated with the expansion of this developing business.

Revenues

2002 to 2001 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," increased $24 million, from $303 million in 2001 to $327 million in 2002 due primarily to asset management fees and commissions earned by recently acquired units partially offset by lower commission revenues from our futures operations.

2001 to 2000 Annual Comparison. Revenues decreased $52 million, or 15%, from 2000 to 2001. The decrease reflects lower commission revenues associated with reduced transaction volume resulting from less active equity markets in comparison to 2000 which benefited from exceptionally active equity markets in the early part of the year partially offset by increased asset management fees and commissions associated with recently acquired units. In addition, revenues for 2000 included the $17 million gain from our interest in the conversion of stock exchange seats as noted above.

Expenses

2002 to 2001 Annual Comparison. Expenses, as shown in the table above under "—Operating Results," decreased $7 million from $344 million in 2001 to $337 million in 2002 primarily due to decreases in revenue-based compensation costs and cost saving measures implemented in 2001 partially offset by expenses associated with recently acquired units.

2001 to 2000 Annual Comparison. Expenses decreased $35 million, or 9%, from 2000 to 2001, due primarily to decreases in revenue-based compensation costs. In addition, results for 2001 include expenses associated with staff reductions and facilities consolidations. Expenses associated with recently acquired units partially offset the aforementioned expense declines.

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 real estate and relocation services, international ventures, divested businesses and businesses that we have placed in wind-down status but 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 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 was substantially reduced in 2001 and the remainder liquidated in 2002, and transactions with other segments. Corporate-level activities also include certain obligations retained at the corporate level relating to policyholders whom we had previously agreed to provide insurance for reduced or no premium, in accordance with contractual settlements related to prior sales practices remediation.

	Year Ended December 31,		
	2002	2001	2000
	(in millions)		
Adjusted operating income:			
Corporate-level activities(1)	$ 155	$ 90	$ (21)
Other businesses:			
Real estate and relocation services	46	(11)	31
International ventures	(2)	(23)	(17)
Other	(5)	8	50
Adjusted operating income	194	64	43
Realized investment gains (losses), net, and related adjustments	(92)	187	(280)
Sales practices remedies and costs	(20)	—	—
Divested businesses	(80)	(147)	(636)
Demutualization costs and expenses	—	(588)	(143)
Income (loss) from continuing operations before income taxes	$ 2	$ (484)	$ (1,016)

(1) Includes consolidating adjustments.

2002 to 2001 Annual Comparison. Income from continuing operations before income taxes was $2 million in 2002, compared to a loss of $484 million in 2001 as the 2001 period included $588 million of demutualization costs and expenses as discussed in "—Consolidated Results of Operations—Demutualization Costs and Expenses." Additionally, adjusted operating income increased $130 million, from $64 million in 2001 to $194 million in 2002 as discussed below. In addition, losses from divested businesses declined $67 million, from $147 million in 2001 to $80 million in 2002 as discussed in "—Consolidated Results of Operations—Divested Businesses." The aforementioned improvements were partially offset by a $279 million decline in realized investment gains, net, and related adjustments, from realized investment gains of $187 million in 2001 to losses of $92 million in 2002, as discussed in "—Consolidated Results of Operations—Realized Investment Gains," and a $20 million charge in 2002 for sales practices remedies and costs as discussed in "—Consolidated Results of Operations—Sales Practices Remedies and Costs."

Corporate and Other operations resulted in adjusted operating income of $194 million in 2002 and $64 million in 2001, an increase of $130 million.

Corporate-level activities resulted in adjusted operating income of $155 million in 2002 and $90 million in 2001.

The increase was primarily due to higher investment income, net of interest expense, of $50 million. Corporate-level activities benefited from the impact of the transfer of net assets from the Traditional Participating Products segment at the date of our demutualization and from cash and short-term investments held at the parent company, which together contributed $229 million to current period adjusted operating income. This additional investment income was 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-level general and administrative expenses were $576 million in 2002, before qualified pension income, compared to $671 million in 2001. 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 and expenses associated with the implementation of our organizational changes announced in August 2002. Income from our own qualified pension plan amounted to $502 million in 2002, compared to $540 million in 2001. The $38 million decline reflects changes in pension plan assumptions, primarily a decrease in the discount rate from 7.75% to 7.25%.

For purposes of calculating pension income from our own qualified pension plan for the year ended December 31, 2003, we will apply an expected return on plan assets of 8.75%, compared to 9.50% used in 2002, and a discount rate of 6.50%, compared to 7.25% in 2002. We determined our expected return on plan assets based upon the arithmetic average of prospective returns, based upon independent third party studies, for equity, debt and real estate markets applied on a weighted average basis to our pension asset portfolio. The decrease in expected rate of return on pension plan assets for 2003 reflects the impact of current market conditions on our prospective view for equity, debt and real estate returns, while the decrease in the discount rate reflects the impact of current market conditions. We will continue to apply a 4.50% rate of increase in compensation levels for purposes of these calculations. Giving effect to the foregoing assumptions for purposes of pension calculations, we expect that income from our own qualified pension plan will continue to contribute to adjusted operating income in 2003 at a level of about $120 million to $140 million below that of the year ended December 31, 2002. Our assumption for return on plan assets for 2003 of 8.75 % has been established as of the September 30, 2002 plan valuation for purposes of results for the year 2003 and will not change with respect to 2003 results. Had a different rate been established for 2003 we estimate that each 1% change, either upward or downward, would have resulted in a corresponding increase or decrease of $95 to $100 million in the expected contribution from our own qualified pension plan to adjusted operating income, if all other assumptions were applied without change.

Corporate-level activities in 2002 includes expenses of $96 million related to supplemental benefits paid to policyholders whom we had previously agreed to provide insurance for reduced or no premium in accordance with contractual settlements related to prior sales practices remediation. This expense resulted from the securities market downturn in 2002, as well as the reduction in policyholder dividend scale announced in December 2002,

as we incur a cost to the extent existing account balances are not adequate to cover the cost of the reduced premiums. These expenses were partially offset by a $26 million reduction, in 2002, of a liability we established in 2001 for death and other benefits due with respect to policies for which we had not received a death claim but where death has occurred, due to a change in our estimate.

In 2001 Corporate-level activities included a $20 million charge offsetting the income earned by Prudential Securities as co-manager in the initial public offering of our Common Stock, which is included in adjusted operating income of our Financial Advisory segment.

Other businesses included in Corporate and Other operations resulted in adjusted operating income of $39 million in 2002, as compared to a loss, on an adjusted operating income basis, of $26 million in 2001. The improvement relates primarily to our real estate and relocation business, which reported adjusted operating income of $46 million in 2002 compared to a loss, on an adjusted operating income basis, of $11 million in 2001. The loss in 2001 reflected expenses of $35 million incurred by this business to consolidate its operating facilities, while 2002 results benefited from increased transaction volume, lower expense levels and activities of a subsidiary acquired in the fourth quarter of 2001. In addition, losses from the remaining operations included in other businesses decreased $8 million, on an adjusted operating income basis, from $15 million in 2001 to $7 million in 2002, primarily reflecting the write-off of goodwill in our international ventures unit in 2001.

2001 to 2000 Annual Comparison. Corporate and Other operations resulted in a loss from continuing operations before income taxes of $484 million in 2001, representing a $532 million decrease in the loss from $1.016 billion in 2000. The $532 million decrease in the loss was the primarily the result of a $489 million decline in losses from divested businesses, from $636 million in 2000 to $147 million in 2001 and a decline in realized investment losses, net, and related adjustments from $280 million in 2000 to gains of $187 million in 2001. Additionally, adjusted operating income increased $21 million, from $43 million in 2000 to $64 million in 2001. However, these improvements were partially offset by a $445 million increase in demutualization costs and expenses, from $143 million in 2000 to $588 million in 2001.

Corporate and Other operations resulted in adjusted operating income of $64 million in 2001 and $43 million in 2000, an increase of $21 million.

Corporate-level activities resulted in adjusted operating income of $90 million in 2001 and a $21 million loss, on an adjusted operating income basis, in 2000. The $111 million increase came primarily from $125 million greater income from our own qualified pension plan and a $22 million reduction in hedging losses retained at the corporate level, partially offset by reduced investment income and a $20 million charge offsetting the income earned by Prudential Securities as co-manager in the initial public offering of our Common Stock, which is included in adjusted operating income of our Financial Advisory segment.

Income from our own qualified pension plan amounted to $540 million in 2001, compared to $415 million in 2000. The $125 million increase came primarily from increased income on pension assets and amortization of deferred gains.

Hedging losses retained at the corporate level decreased $22 million from $26 million in 2000 to $4 million in 2001. The increase in income from our own qualified pension plan and decrease in hedging losses were partially offset by reductions in investment income from our debt-financed investment portfolio and from invested assets that we held pending disbursement for sales practices remedies and costs. Investment income from the debt-financed investment portfolio, net of interest expense, contributed $38 million to adjusted operating income for 2001 compared to $98 million for 2000, as a result of a decline in the assets in the portfolio to approximately $223 million at December 31, 2001 from $3.7 billion a year earlier. Income from invested assets related to sales practices remedies and costs declined $25 million as disbursements were made to satisfy these liabilities. Investment income for 2001 included about $15 million relating to assets initially invested within our Corporate and Other operations as a result of transactions relating to our demutualization, effective as of December 18, 2001. About half of this investment income represents earning on assets corresponding to cash payments in January 2002 for demutualization consideration in lieu of Common Stock.

General and administrative expenses at the corporate level, on a gross basis before qualified pension income, amounted to $671 million in 2001 compared to $687 million in 2000.

Other businesses included in Corporate and Other operations resulted in a loss, on an adjusted operating income basis of $26 million in 2001 compared to income of $64 million in 2000. The $90 million decline came primarily from the benefit to 2000 results from reductions of reserves for future claims in our remaining Canadian insurance operations and our wind-down group credit insurance operations. In addition, our real estate and relocation business reported a loss, on an adjusted operating income basis, of $11 million in 2001 versus adjusted operating income of $31 million in 2000. The loss in 2001 resulted from expenses of $35 million from consolidation of operating facilities as well as a decline in corporate relocation volume.

Closed Block Business

As discussed under "Overview—Financial Services Businesses and Closed Block Business," we established the Closed Block Business effective at the date of demutualization. The Closed Block Business, which represents results of our former Traditional Participating Products segment prior to the demutualization, includes our in force traditional participating life insurance and annuity products, and assets that are being used for the payment of benefits and policyholder dividends on these policies, as well as other assets and equity and related liabilities that support these policies. We have ceased offering these participating policies.

Also concurrently with our demutualization, we issued the IHC debt. We allocated the majority of the net proceeds from the issuance of the IHC 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 results of the Closed Block Business include interest expense associated with the IHC debt.

Upon the establishment of the Closed Block Business, we transferred $5.6 billion of net assets previously associated with the former Traditional Participating Products segment to the Financial Services Businesses. As a result, income (loss) from continuing operations before income taxes of the Closed Block Business excludes returns on these net assets, which were historically included in income (loss) from continuing operations before income taxes of the former Traditional Participating Products segment.

At the end of each year, the Board of Directors of Prudential Insurance determines the dividends payable for participating policies for the following year based on its statutory results and past experience, including investment income, net realized gains over a number of years, mortality experience and other factors. As required by generally accepted accounting principles, we developed an actuarial calculation of the timing of the maximum future earnings from the policies included in the Closed Block, and if actual cumulative earnings in any given period are greater than the cumulative earnings we expect, we will record this excess as a policyholder dividend obligation. We will subsequently pay this excess to Closed Block policyholders as an additional dividend unless it is otherwise offset by future Closed Block performance that is less favorable than what we originally expected. The policyholder dividends we charge to expense within the Closed Block Business will include any policyholder dividend obligations that we recognize for the excess of actual cumulative earnings in any given period over the cumulative earnings we expect in addition to the actual policyholder dividends declared by the Board of Directors of Prudential Insurance. If cumulative performance is less favorable than we expected, the policyholder dividends we charge to expense within the Closed Block Business will be the actual dividends declared by the Board of Directors. Subsequent to the date of demutualization, there was no required charge to recognize a policyholder dividend obligation for the excess of actual cumulative earnings in any given period over the cumulative earnings we expect. However, unrealized investment gains and losses that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation to be paid to Closed Block policyholders, unless otherwise offset by future experience, with an offsetting amount reported in accumulated other comprehensive income and, as such, we have a policyholder dividend obligation to be paid to Closed Block policyholders of $1.605 billion recorded as of December 31, 2002.

Operating Results

Management does not consider 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.

	Year Ended December 31,		
	2002	2001	2000
	(in millions)		
GAAP results:			
Revenues	$ 7,121	$ 7,728	$ 8,729
Benefits and expenses	7,878	8,347	8,536
Income (loss) from continuing operations before income taxes	$ (757)	$ (619)	$ 193

Income from Continuing Operations Before Income Taxes

2002 to 2001 Annual Comparison. Loss from continuing operations before income taxes increased $138 million, to $757 million for 2002 from $619 million in 2001. The increase in the loss from continuing operations before income taxes reflects a decline in net investment income, including interest expense on the IHC debt, of $402 million. This decline reflects our transfer of $5.6 billion of net assets previously associated with the former Traditional Participating Products segment at the date of our demutualization in late 2001 and a lower investment yield on the assets remaining in the Closed Block Business, as well as interest expense associated with the IHC debt, which we issued in December 2001. Partially offsetting these items was a decrease in the charge for policyholder dividends of $127 million, reflecting changes in the dividend scale for 2002 and 2003. In addition, we established $144 million of reserves in 2001 for death and other benefits due with respect to policies for which we had not received a death claim but where death has occurred. Lastly, we continue to benefit from our expense reduction efforts, for which the Closed Block Business incurred $48 million of implementation costs in 2001.

2001 to 2000 Annual Comparison. Income from continuing operations before income taxes amounted to a loss of $619 million in 2001, compared to income of $193 million in 2000, with the decline primarily due to a $634 million decrease in realized investment gains (losses), net. For a discussion of Closed Block Business realized investment losses, net, see "—Consolidated Results of Operations—Realized Investment Gains."

Revenues

2002 to 2001 Annual Comparison. Revenues, as shown in the table above under "—Operating Results," decreased $607 million, or 8%, from 2001 to 2002. Net investment income declined $279 million, from $3.897 billion in 2001 to $3.618 billion in 2002, for the reasons discussed above. Premiums decreased $228 million, or 5%, from $4.250 billion in 2001 to $4.022 billion in 2002, reflecting a decline in first year and renewal premiums as well as paid-up additions, which represent additional insurance purchased with policyholder dividends. We discontinued sales of traditional products in connection with our demutualization and expect the decline in first year and renewal premiums to continue as the policies in force mature or terminate over time. The decline in paid up additions is consistent with the decrease in the dividend scales discussed above. Realized investment losses, net of gains, increased $44 million, from $543 million in 2001 to $587 million in 2002.

2001 to 2000 Annual Comparison. Revenues decreased $1.001 billion, or 11%, from 2000 to 2001. Realized investment gains (losses), net decreased $634 million, as discussed above. Premiums decreased $105 million, from $4.355 billion in 2000 to $4.250 billion in 2001, as an increase in paid-up additions, which represent additional insurance purchased with policyholder dividends, was more than offset by lower renewal premiums. Net investment income decreased $275 million, from $4.172 billion in 2000 to $3.897 billion in 2001, reflecting a decline in the general account invested assets supporting this business due to a lower level of borrowing activity and a lower investment yield.

Benefits and Expenses

2002 to 2001 Annual Comparison. Benefits and expenses, as shown in the table above under "—Operating Results," decreased $469 million, or 6%, from 2001 to 2002. Operating expenses, including distribution costs that we charge to expense, decreased $136 million, from 2001 to 2002, reflecting our continued efforts to reduce operating cost levels and $48 million of implementation costs for this program incurred by the Closed Block Business in 2001. An increase in interest expense associated with the IHC debt we issued in December 2001, was a partial offset.

Policyholder benefits and related changes in reserves, including interest credited to policyholders' accounts, decreased $278 million, from $4.722 billion in 2001 to $4.444 billion in 2002. Policyholder benefits for 2001 included $144 million of reserves established for death and other benefits due with respect to policies for which we had not received a death claim but where death has occurred. Reserves established for new and renewal business decreased in 2002, consistent with our expectations and reflecting our discontinuation of sales of traditional products discussed above, partially offset by growth in reserves due to aging of policies in force.

Dividends to policyholders amounted to $2.506 billion in 2002, a decrease of $127 million, or 5%, from $2.633 billion in 2001. The decline reflects reductions in the dividend scales for 2002 and 2003 based on evaluations of the experience underlying the dividend scale.

2001 to 2000 Annual Comparison. Benefits and expenses decreased $189 million, or 2%, from 2000 to 2001. Interest expense declined $118 million, from $152 million in 2000 to $34 million in 2001, primarily due to a lower level of borrowing activity associated with the decrease in investment income. Amortization of deferred policy acquisition costs decreased $56 million, from $269 million in 2000 to $213 million in 2001, as these costs became fully amortized on a portion of this business. Operating expenses, including distribution costs that we charge to expense, decreased $26 million, from $771 million in 2000 to $745 million in 2001, as a result of efforts to reduce operating cost levels.

Policyholder benefits and related changes in reserves, including interest credited to policyholders' accounts, increased $84 million, from $4.638 billion in 2000 to $4.722 billion in 2001. The increase in benefits and reserves resulted from death benefits, including $138 million of reserves recorded in 2001 for death and other benefits due with respect to policies for which we had not received a death claim but where death has occurred, and the aging of policies in force, as well as insurance claims relating to the September 11, 2001 terrorist attacks on the U.S., which resulted in net losses of approximately $10 million. Partially offsetting these items is a reduction in the amount of reserves established for new and renewal business.

Dividends to policyholders amounted to $2.633 billion in 2001, a decrease of $73 million from $2.706 billion in 2000. There was no adjustment to the dividend scale in 2001 from the scale of 2000. The decrease relates to the portion of our dividend provision related to dividends for the subsequent year and reflects dividend scale changes 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 $14 million for the year ended December 31, 2002, representing first year premiums on policies we sold prior to our demutualization, $36 million for 2001 and $49 million for 2000. 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.

	Year Ended December 31,		
	2002	2001	2000
	($ in millions)		
Cash value of surrenders	$ 1,234	$ 1,246	$ 1,217
Cash value of surrenders as a percentage of mean future policy benefit reserves	2.6%	2.7%	2.7%

2002 to 2001 Annual Comparison. The total cash value of surrenders decreased $12 million in 2002 from 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 2002 from 2001.

2001 to 2000 Annual Comparison. The total cash value of surrenders increased $29 million, or 2%, from 2000 to 2001, primarily as a result of our efforts to locate policyholders in connection with our demutualization. The level of surrenders as a percentage of mean future policy benefit reserves was unchanged from 2000 to 2001.

Liquidity and Capital Resources

Prudential Financial

The principal sources of funds available to Prudential Financial, the parent holding company, 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, dividends and returns of capital, and interest income from its direct and indirect subsidiaries. These sources of funds are complemented by Prudential Financial's capital markets access. We believe that cash flows from these sources are more than adequate to satisfy the liquidity requirements of our operations. As of December 31, 2002, Prudential Financial had cash and short-term investments of approximately $1.8 billion, a decrease of $2.6 billion, or 59%, from December 31, 2001.

Sources of Cash

Sources of cash included dividends and returns of capital of approximately $800 million from several operating businesses as well as approximately $700 million in additional cash received from operating businesses, which includes approximately $450 million in excess cash loaned to Prudential Financial on a short-term basis.

Uses of Cash

In addition to the payment of $2.1 billion for demutualization consideration to eligible policyholders in our 2001 demutualization, uses of cash included capital contributions of $1.3 billion to various operating businesses, as well as $173 million in dividends paid to common shareholders and $726 million utilized to repurchase Common Stock. Prudential Financial remains obligated to disburse further payments of approximately $950 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.

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 December 31, 2002 and 2001, Prudential Insurance's unassigned surplus (deficit) was ($420) 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, Prudential Insurance must also 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 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 to Prudential Holdings, LLC. Prudential Holdings, LLC, in turn, paid $169 million of such dividend to Prudential Financial of which $150 million was attributable to the Financial Services Businesses. 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 2002. These subsidiaries are subject to regulations similar to those applicable to Prudential Insurance with respect to their ability 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. Pursuant to Gibraltar Life's reorganization, there are certain restrictions on Gibraltar Life's ability to pay dividends to Prudential Financial.

On January 22, 2002, Prudential Financial's Board of Directors authorized a stock repurchase program under which Prudential Financial was authorized to purchase up to $1 billion of its outstanding Common Stock. As of December 31, 2002, 26.0 million shares of Common Stock were repurchased by the Company at a total cost of $800 million, including 1.7 million shares at a cost of $56 million that were immediately reissued directly to a Company deferred compensation plan. Between January 1, 2003 and February 28, 2003, the Company repurchased an additional 5.6 million shares at a total cost of $175 million.

On March 11, 2003, Prudential Financial's Board of Directors authorized a new stock repurchase program under which Prudential Financial 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.

On November 12, 2002, the Company declared annual dividends for 2002 of $0.40 per share of Common Stock and $9.625 per share of Class B Stock, each payable on December 18, 2002 to shareholders of record as of November 25, 2002. The total dividends payable amounted to $226 million and $19 million for the Common Stock and Class B Stock, respectively, of which $173 million and $19 million, respectively, were paid out as of December 31, 2002.

On December 19, 2002, we entered into a definitive Stock Purchase Agreement with Skandia Insurance Company Ltd. ("Skandia"), an insurance company based in Sweden, pursuant to which Prudential Financial will acquire Skandia U.S. Inc., a Delaware corporation ("Skandia U.S."), from Skandia. The total consideration payable in the transaction includes a cash purchase price of $1.15 billion and the assumption of a $115 million liability, subject to certain purchase price adjustments. The transaction, which is expected to close in the second quarter of 2003, is subject to various closing conditions, including, among others, regulatory approvals, filing under the Hart-Scott-Rodino Antitrust Improvements Act and approval by the boards of directors and shareholders of the mutual funds advised by Skandia U.S.'s subsidiaries. We plan to utilize cash and borrowing capacity at Prudential Financial to fund this transaction.

On February 19, 2003, we announced an agreement with Wachovia to combine each company's respective retail securities brokerage and clearing operations. This transaction is expected to close in the third quarter of 2003. The new combined company will require additional capital to finance the cost of merging the businesses. Our share of such funding, excluding related tax benefits, is expected to be approximately $400 million. That need is expected to be partially offset at closing with cash that will be distributed to Prudential Securities Group, Inc. from Prudential Securities, Inc. as the businesses are combined. The transaction is not expected to have a material impact on Prudential Financial's liquidity and capital position.

Financing Activities

Prudential Financial is authorized to borrow funds from various sources to meet its financing needs, as well as the financing needs of its subsidiaries. As of December 31, 2002, there was no outstanding third-party debt at Prudential Financial. To enhance financial flexibility, we plan to file a registration statement with the Securities and Exchange Commission in the second quarter of 2003, which will permit the issuance of public debt and equity securities.

In addition, Prudential Funding, LLC ("Prudential Funding"), a wholly-owned subsidiary of Prudential Insurance, continues to serve as a source of financing for Prudential Insurance and its subsidiaries, as well as for destacked subsidiaries. Prudential Funding operates under a support agreement with Prudential Insurance, whereby Prudential Insurance has agreed to maintain Prudential Funding's positive tangible net worth at all times. Prudential Funding borrows funds primarily through the direct issuance of commercial paper and private placement medium-term notes. Prudential Funding's outstanding loans to destacked subsidiaries are expected to decline over time as it transitions into a financing company primarily for Prudential Insurance and its remaining subsidiaries. We anticipate that our other companies will borrow directly from third parties and from Prudential Financial, as well as from Prudential Funding from time to time.

Our current financing activities principally consist of unsecured short-term and long-term unsecured debt borrowings and asset-based or secured forms of financing. These secured financing arrangements include transactions such as securities lending and repurchase agreements, which we generally use to finance liquid securities in our short-term spread portfolios.

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

	As of December 31,	
	2002	2001
	(in millions)	
Borrowings:		
General obligation short-term debt	$ 3,468	$ 5,334
General obligation long-term debt:		
Senior debt	1,744	2,042
Surplus notes	690	989
Total general obligation long-term debt	2,434	3,031
Total general obligations	5,902	8,365
Total limited and non-recourse borrowing(1)	2,324	2,344
Total borrowings(2)	8,226	10,709
Total asset-based financing	29,127	24,683
Total borrowings and asset-based financings(3)	$ 37,353	$ 35,392

(1) As of December 31, 2002 and 2001, $1.75 billion of limited and non-recourse debt is within the Closed Block Business.
(2) Includes $1.3 billion and $1.7 billion related to Prudential Securities Group Inc. as of December 31, 2002 and 2001, respectively.
(3) Includes $8.9 billion and $9.6 billion related to Prudential Securities Group Inc. as of December 31, 2002 and 2001, respectively.

Total general debt obligations as of December 31, 2002 decreased by $2.5 billion, or 29%, from December 31, 2001, reflecting a $597 million decrease in long-term debt obligations and a $1.9 billion decrease in short-term debt obligations. The decrease in short-term debt was driven in part by the recapitalization of Prudential Securities Group net of its increased borrowing needs, which contributed approximately $710 million to the decrease in short-term debt. In addition, various other businesses utilized over $540 million in cash from operations to reduce commercial paper outstanding. Also contributing to the decline in short-term debt were decreased borrowing needs of approximately $750 million in various operating businesses. Long-term debt decreased primarily due to the reclassification of $585 million in long-term debt to current, including $300 million in surplus notes. Asset-based financing increased by $4.4 billion in our short-term spread 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 utilized 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. This amount includes $1.75 billion of limited and non-recourse debt within the Closed Block Business.

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

	As of December 31,	
	2002	2001
	(in millions)	
General obligations:		
General corporate purposes	$ 1,596	$ 2,667
Investment related	899	1,420
Securities business related	2,614	3,123
Specified other businesses	793	1,155
Total general obligations	5,902	8,365
Limited and non-recourse debt	2,324	2,344
Total borrowings	$ 8,226	$ 10,709
Long-term debt	$ 4,757	$ 5,304
Short-term debt	3,469	5,405
Total borrowings	$ 8,226	$ 10,709
Borrowings of Financial Services Businesses	$ 6,476	$ 8,959
Borrowings of Closed Block Business	1,750	1,750
Total borrowings	$ 8,226	$ 10,709

Our short-term debt includes bank borrowings and commercial paper outstanding under Prudential Funding's domestic commercial paper program as well as borrowings outstanding under an asset-backed commercial paper conduit that is described below. Prudential Funding's commercial paper borrowings as of December 31, 2002 and 2001 were $1.3 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 1.26%, 4.22% and 6.31% for the years ended December 31, 2002, 2001 and 2000, respectively. The total principal amount of debt outstanding under Prudential Funding's medium-term note programs as of December 31, 2002 and 2001 was $1.4 billon and $2.0 billion, respectively. The weighted average interest rates on Prudential Funding's long-term debt, in the aggregate, were 4.71%, 5.94% and 6.67% for the years ended December 31, 2002, 2001 and 2000, respectively. As of December 31, 2002, Prudential Financial had no short-term or long-term debt outstanding.

We had outstanding surplus notes totaling $990 million and $989 million as of December 31, 2002 and 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.

As of December 31, 2002, Prudential Insurance and Prudential Funding had unsecured committed lines of credit totaling $2.6 billion. The lines consist of $0.1 billion expiring during 2003, $1.0 billion expiring in May 2004, and $1.5 billion expiring in October 2006. Borrowings under the outstanding 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 October 2006 facility. Up to $2.0 billion of the $2.6 billion available under these facilities can be utilized by Prudential Financial. The

$2.0 billion consists of $1.0 billion made available under each of the facilities expiring in May 2004 and October 2006. We use these facilities primarily as back-up liquidity lines for our commercial paper programs, and there were no outstanding borrowings under these facilities as of December 31, 2002 or 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 December 31, 2002 and 2001 was $9.1 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 $21.3 billion and $20.5 billion as of December 31, 2002 and 2001, respectively. In addition, we have a credit facility utilizing a third party-sponsored, asset-backed commercial paper conduit, under which we can borrow up to $500 million. This facility is 100% supported by unsecured committed lines of credit from many of the financial institutions included in our other facilities. Our actual ability to borrow under this facility depends on market conditions, and with respect to the lines of credit, Prudential Financial is subject to the same net worth requirement as with our other facilities. This facility expires in December 2003. We also use uncommitted lines of credit from banks and other financial institutions.

Insurance, Annuities and Guaranteed Products Liquidity

General

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, with the remainder liquidated in 2002.

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.

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.

Prudential Insurance and Insurance Subsidiaries

We manage cash flow at these entities to ensure that all liquidity requirements are satisfied. Some of our products, such as guaranteed products offered to institutional customers of the Retirement segment, 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 for Prudential Insurance and its insurance subsidiaries amounted to $6.608 billion and $7.156 billion for the years ended December 31, 2002 and 2001, respectively. These withdrawals include contractually scheduled maturities of traditional guaranteed investment contracts totaling $1.064 billion and $1.671 billion in 2002 and 2001, respectively. 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 general account annuity reserves and deposit liabilities (based on statutory liability values) as of the dates indicated.

	As of December 31,			
	2002		2001	
	Amount	% of Total	Amount	% of Total
	($ in millions)			
Not subject to discretionary withdrawal provisions	$ 17,566	54%	$ 17,593	57%
Subject to discretionary withdrawal, with adjustment:				
With market value adjustment	5,282	16%	4,489	15%
At contract value, less surrender charge of 5% or more	2,065	6%	1,285	4%
Subtotal	24,913	76%	23,367	76%
Subject to discretionary withdrawal at contract value with no surrender charge or surrender charge of less than 5%	8,053	24%	7,239	24%
Total annuity reserves and deposit liabilities	$ 32,966	100%	$ 30,606	100%

As of December 31, 2002 and 2001, general account balances for variable life insurance products other than single-payment life were $2.0 billion and $1.9 billion, respectively. As of December 31, 2002 and 2001, Prudential Insurance and its insurance subsidiaries had cash and short-term investments of approximately $9.798 billion and $9.496 billion, respectively, and fixed maturity investments classified as “available for sale” with fair values of $92.8 billion and $79.2 billion at those dates, respectively.

Gibraltar Life Insurance Company, Ltd.

As of December 31, 2002 and 2001, Gibraltar Life, which we acquired in April 2001, had $5.741 billion and $5.881 billion of general account annuity reserves and deposit liabilities that are subject to discretionary withdrawal at their contract value, less a surrender charge of 5% or more. 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 September 30):

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

As of December 31, 2002 and 2001, Gibraltar Life had cash and short-term investments of approximately $1.172 billion and $5.768 billion, respectively, and fixed maturity investments classified as “available for sale” with fair values of $20.8 billion and $17.6 billion at those dates, respectively.

Prudential Securities Group 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 $20.3 billion and $22.8 billion as of December 31, 2002 and 2001, respectively. Prudential Securities Group’s total capitalization, including equity, subordinated debt and long-term debt, was $3.6 billion and $3.3 billion as of December 31, 2002 and 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. As of December 31, 2002, Prudential Securities Group had remaining assets amounting to approximately $900 million related to its institutional fixed income activities, as compared to $1.2 billion as of December 31, 2001.

Non-Insurance Contractual Obligations

The following table presents our contractual cash flow commitments on short-term and long-term debt, equity security units and operating leases as of December 31, 2002. See Notes 12, 13 and 22 to the Consolidated Financial Statements for additional information on our short-term and long-term debt, equity security units and operating leases. This table does not reflect our obligations under our insurance, annuity and guaranteed products contracts.

	Payment Due by Period				
	Total	2003	2004 and 2005	2006 and 2007	2008 and After
	(in millions)				
Short-term and long-term debt	$ 8,226	$3,469	$ 537	$ 326	$ 3,894
Equity security units	690	—	—	690	—
Operating leases	1,687	281	464	348	594
Total	$10,603	$3,750	$ 1,001	$ 1,364	$ 4,488

In connection with our consumer banking business, commitments for 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 commitments for home equity lines of credit and other lines of credit were $2.0 billion, of which $815 million remains available as of December 31, 2002.

We also have other commitments, which primarily include commitments to originate and sell mortgage loans and commitments to fund investments in private placement securities and limited partnerships. These commitments amounted to $2.2 billion as of December 31, 2002.

In connection with certain acquisitions, we agreed to pay additional consideration in future periods, based upon the attainment by the acquired entity of defined operating objectives. In accordance with SFAS No. 141, "Business Combinations," we do not accrue contingent consideration obligations prior to the attainment of the objectives. At December 31, 2002, maximum potential future consideration pursuant to such arrangements, to be resolved over the following six years, is $266 million. Any such payments would result in increases in goodwill.

We provide financial guarantees incidental to other transactions. 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 single 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 December 31, 2002, financial guarantees were $841 million.

The following table presents the expirations of the contractual commitments discussed above as of December 31, 2002.

	Expirations by Year				
	Total	2003	2004 and 2005	2006 and 2007	2008 and After
	(in millions)				
Commitments for home equity and other lines of credit	$ 815	$ 39	$ 175	$ 12	$ 589
Other commitments	2,224	1,032	417	413	362
Contingent consideration	266	20	132	83	31
Financial guarantees	841	51	269	72	449
Total	$4,146	$1,142	$ 993	$ 580	$ 1,431

Ratings

See "Business—Ratings" for a summary of the Company's insurance claims-paying ratings and credit ratings.

Deferred Policy Acquisition Costs

We capitalize costs that vary with and are related primarily to the production of new insurance and annuity business. These costs include commissions, costs to issue and underwrite the policies and certain variable field office expenses. The capitalized amounts are known as deferred policy acquisition costs, or DAC. Our total DAC, including the impact of unrealized investment gains and losses, amounted to $7.031 billion and $6.868 billion as of December 31, 2002 and 2001, respectively. Approximately 51% of our total DAC as of December 31, 2002 relates to our Individual Life and Annuities segment, and approximately 16% relates to our Closed Block Business.

If we were to experience a significant decrease in asset values or increase in lapse or surrender rates on policies for which we amortize DAC based on estimated gross margins or gross profits, such as participating and variable life insurance, we would expect acceleration of the write-off of DAC for the affected blocks of policies. Additionally, for all policies on which we have outstanding DAC, we would be required to evaluate whether this experience called into question our ability to recover all or a portion of the DAC, and we would be required to write off some or all of the DAC if we concluded that we could not recover it. While an accelerated write-off of DAC would not affect our cash flow or liquidity, it would negatively affect our reported earnings and level of capital under generally accepted accounting principles.

Off-Balance Sheet Arrangements

Guarantees

As discussed under “Liquidity and Capital Resources—Non-Insurance Contractual Obligations” we provide guarantees incidental to other transactions and services.

We provide a number of guarantees related to sales or transfers of real estate, in which the buyer has borrowed funds, and we have guaranteed their obligation to their lender. We provide these guarantees to assist them in obtaining financing for the transaction on more beneficial terms. In some instances, the buyer is an unconsolidated affiliate, and in other instances the buyer is unaffiliated and we retain no interests in the transferred asset. Our maximum potential exposure under these guarantees was $774 million as of December 31, 2002. Any payments that may become required by us under these guarantees would either first be reduced by proceeds received by the creditor on a sale of the assets, or would provide us with rights to obtain the assets.

Other Off-Balance Sheet Arrangements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management, Market Risk and Derivative Instruments

Risk management includes the identification and measurement of various forms of risk, the establishment of risk thresholds and the creation of processes intended to maintain risks within these thresholds while optimizing returns on the underlying assets or liabilities. We consider risk management an integral part of our core business.

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. The market risks incurred and our strategies for managing these risks vary by product.

With respect to non-variable life insurance products, fixed rate annuities, the fixed rate options in our variable life insurance and annuity products, consumer banking products, and other finance businesses, we incur market risk primarily in the form of interest rate risk. We manage this risk through asset/liability management strategies that seek to match the interest rate sensitivity of the assets to that of the underlying liabilities. Our overall objective in these strategies is to limit the net change in value of assets and liabilities arising from interest rate movements. While it is more difficult to measure the interest sensitivity of our insurance liabilities than that of the related assets, to the extent that we can measure such sensitivities we believe that interest rate movements will generate asset value changes that substantially offset changes in the value of the liabilities relating to the underlying products.

For variable annuities and variable life insurance products, excluding the fixed rate options in these products, mutual funds and most separate accounts, our main exposure to the market is the risk that asset management fees decrease as a result of declines in assets under management due to changes in prices of securities. We also run the risk that asset management fees calculated by reference to performance could be lower. For variable annuity and variable life insurance products with minimum guaranteed death benefits, we also face the risk that declines in the value of underlying investments as a result of changes in prices of securities may increase our net exposure to death benefits under these contracts. We do not believe that these risks add significantly to our overall market risk.

We manage our exposure to equity price risk relating to our general account primarily by seeking to match the risk profile of equity investments against risk-adjusted equity market benchmarks. We measure benchmark risk levels in terms of price volatility in relation to the market in general.

The sources of our exposure to market risk can be divided into two categories, “other than trading” activities conducted primarily in our insurance, annuity and guaranteed products operations, and “trading” activities conducted primarily in our securities operations. As part of our management of both “other than trading” and “trading” market risks, we use a variety of risk management tools and techniques. These include sensitivity and Value-at-Risk (“VaR”) measures, position and other limits based on type of risk, and various hedging methods.

Other Than Trading Activities

We hold the majority of our assets for “other than trading” activities in our segments that offer insurance, annuities and guaranteed products. We incorporate asset/liability management techniques and other risk management policies and limits into the process of investing our assets. We use derivatives for hedging purposes in the asset/liability management process.

Insurance, Annuities and Guaranteed Products Asset/Liability Management

We seek to maintain interest rate and equity exposures within established ranges, which we periodically adjust based on market conditions and the design of related products sold to customers. Our risk managers establish investment risk limits for exposures to any issuer, geographic region, type of security or industry sector and oversee efforts to manage risk within policy constraints set by management and approved by the Board of Directors.

We use duration and convexity analyses to measure price sensitivity to interest rate changes. Duration measures the relative sensitivity of the fair value of a financial instrument to changes in interest rates. Convexity measures the rate of change of duration with respect to changes in interest rates. We seek to manage our interest rate exposure by legal entity by matching the relative sensitivity of asset and liability values to interest rate changes, or controlling "duration mismatch" of assets and liabilities. We have target duration mismatch constraints for each entity. As of December 31, 2002 and 2001, the difference between the pre-tax duration of assets and the target duration of liabilities in our duration managed portfolios was within our constraint limits. We consider risk-based capital implications in our asset/liability management strategies.

We also perform portfolio stress testing as part of our regulatory cash flow testing. In this testing, we evaluate the impact of altering our interest-sensitive assumptions under various moderately adverse interest rate environments. These interest-sensitive assumptions relate to the timing and amount of redemptions and prepayments of fixed-income securities and lapses and surrenders of insurance products. We evaluate any shortfalls that this cash flow testing reveals to determine if we need to increase statutory reserves or adjust portfolio management strategies.

Market Risk Related to Interest Rates

Our "other than trading" assets that subject us to interest rate risk include fixed maturity securities, commercial loans and policy loans. In the aggregate, the carrying value of these assets represented 70% of our consolidated assets, other than assets that we held in separate accounts, as of December 31, 2002 and 64% as of December 31, 2001.

With respect to "other than trading" liabilities, we are exposed to interest rate risk through policyholder account balances relating to interest-sensitive life insurance, annuity and investment-type contracts and through outstanding short-term and long-term debt.

We assess interest rate sensitivity for "other than trading" financial assets, financial liabilities and derivatives using hypothetical test scenarios that assume either upward or downward 100 basis point parallel shifts in the yield curve from prevailing interest rates. The following tables set forth the potential loss in fair value from a hypothetical 100 basis point upward shift at December 31, 2002 and 2001, because this scenario results in the greatest net exposure to interest rate risk of the hypothetical scenarios tested at those dates. While the test scenario is for illustrative purposes only and does not reflect our expectations regarding future interest rates or the performance of fixed-income markets, it is a near-term, reasonably possible hypothetical change that illustrates the potential impact of such events. These test scenarios do not measure the changes in value that could result from non-parallel shifts in the yield curve, which we would expect to produce different changes in discount rates for different maturities. As a result, the actual loss in fair value from a 100 basis point change in interest rates could be different from that indicated by these calculations.

	December 31, 2002			
	Notional Value of Derivatives	Estimated Fair Value	Hypothetical Fair Value After + 100 Basis Point Parallel Yield Curve Shift	Hypothetical Change in Fair Value
		(in millions)		
Financial assets with interest rate risk:				
Fixed maturities:				
Available for sale		$ 125,463	$ 118,100	$ (7,363)
Held to maturity		2,673	2,598	(75)
Commercial loans		21,221	20,100	(1,121)
Mortgage securitization inventory		708	703	(5)
Policy loans		10,714	10,044	(670)
Derivatives:				
Swaps	$ 8,306	(63)	(8)	55
Futures	1,012	(31)	14	45
Options	233	8	3	(5)
Forwards	7,584	(195)	(194)	1
Financial liabilities with interest rate risk:				
Short-term and long-term debt		(8,804)	(8,447)	357
Investment contracts		(38,765)	(38,203)	562
Guaranteed beneficial interest in Trust holding solely debentures of Parent		(755)	(730)	25
Total estimated potential loss				$ (8,194)

	December 31, 2001			
	Notional Value of Derivatives	Estimated Fair Value	Hypothetical Fair Value After + 100 Basis Point Parallel Yield Curve Shift	Hypothetical Change in Fair Value
		(in millions)		
Financial assets with interest rate risk:				
Fixed maturities:				
Available for sale		$ 109,942	$ 103,620	$ (6,322)
Held to maturity		395	374	(21)
Commercial loans		20,106	18,990	(1,116)
Mortgage securitization inventory		1,185	1,177	(8)
Policy loans		9,562	8,982	(580)
Derivatives:				
Swaps	$ 10,724	55	191	136
Futures	2,877	6	62	56
Options	338	3	(1)	(4)
Forwards	9,735	84	84	—
Financial liabilities with interest rate risk:				
Short-term and long-term debt		(10,840)	(10,507)	333
Investment contracts		(35,911)	(35,345)	566
Guaranteed beneficial interest in Trust holding solely debentures of Parent		(690)	(669)	21
Total estimated potential loss				$ (6,939)

The tables above do not include approximately $99 billion of insurance reserve and deposit liabilities at December 31, 2002 and $95 billion at December 31, 2001. We believe that the interest rate sensitivities of these insurance liabilities offset, in large measure, the interest rate risk of the financial assets set forth in these tables.

The $1,255 million increase in the total estimated potential loss at December 31, 2002 from December 31, 2001 resulted primarily from the increase in our portfolio of fixed maturities available for sale during 2002.

The estimated changes in fair values of our financial assets shown above relate primarily to assets invested to support our insurance liabilities, but do not include assets associated with products for which investment risk is borne primarily by the contract holders rather than by us.

Market Risk Related to Equity Prices

We actively manage equity price risk against benchmarks in respective markets. We benchmark our return on equity holdings against a blend of market indices, mainly the S&P 500 and Russell 2000, and we target price sensitivities that approximate those of the benchmark indices. We estimate our equity price risk from a hypothetical 10% decline in equity benchmark market levels and measure this risk in terms of the decline in fair market value of equity securities we hold. Using this methodology, our estimated equity price risk at December 31, 2002 was $281 million, representing a hypothetical decline in fair market value of equity securities we held at that date from $2.807 billion to $2.526 billion. Our estimated equity price risk using this methodology at December 31, 2001 was $227 million, representing a hypothetical decline in fair market value of equity securities we held at that date from $2.272 billion to $2.045 billion. In calculating these amounts, we exclude equity securities related to products for which the investment risk is borne primarily by the contractholder rather than by us. While these scenarios are for illustrative purposes only and do not reflect our expectations regarding future performance of equity markets or of our equity portfolio, they represent near term reasonably possible hypothetical changes that illustrate the potential impact of such events.

Market Risk Related to Foreign Currency Exchange Rates

We are exposed to foreign currency exchange rate risk in our general account and through our operations in foreign countries. In our international life insurance business, we generally invest in assets denominated in the same currencies as our insurance liabilities, which mitigates our foreign currency exchange rate risk for these operations.

Our exposure to foreign currency risk within the general account investment portfolios supporting our U.S. insurance operations arises primarily from purchased investments that are denominated or payable in foreign currencies. We generally hedge substantially all foreign currency-denominated fixed-income investments supporting our U.S. operations into U.S. dollars, using foreign exchange forward contracts and currency swaps, in order to mitigate the risk that the fair value of these investments fluctuates as a result of changes in foreign exchange rates. We generally do not hedge all of the foreign currency risk of our equity investments in unaffiliated foreign entities.

Our operations in foreign countries create two additional sources of foreign currency risk. First, we reflect the operating results of our foreign branches and subsidiaries in our financial statements based on the average exchange rates prevailing during the period. We hedge some of these foreign currency flows based on our overall risk management strategy and loss limits. We generally hedge our anticipated exposure to adjusted operating income fluctuations resulting from changes in foreign currency exchange rates relating to our International operations in Japan, of which our Japanese insurance operations are the most significant, using foreign exchange forward contracts and currency swaps. Second, we translate our equity investment in foreign branches and subsidiaries into U.S. dollars using the foreign currency exchange rate at the financial statement period-end date. We have chosen to partially hedge this exposure.

We actively manage foreign currency exchange rate risk within specified limits at the consolidated level using Value-at-Risk analysis. This statistical technique estimates, at a specified confidence level, the potential pre-tax loss in portfolio market value that could occur over an assumed time horizon due to adverse market movements. We calculate this using a variance/covariance approach.

We calculate Value-at-Risk estimates of exposure to loss from volatility in foreign currency exchange rates for one-month time periods. Our estimated VaR at December 31, 2002 for foreign currency assets not hedged to U.S. dollars, measured at the 95% confidence level and using a one-month time horizon, was $9 million, representing a hypothetical decline in fair market value of these foreign currency assets from $494 million to $485 million. Our estimated VaR at December 31, 2001 for foreign currency assets not hedged to U.S. dollars, measured at the 95% confidence level and using a one-month time horizon, was $9 million, representing a hypothetical decline in fair market value of these foreign currency assets from $495 million to $486 million. These calculations use historical price volatilities and correlation data at a 95% confidence level. We discuss limitations of VaR models below. Our estimated VaR for foreign exchange forward contracts and currency swaps used to hedge our anticipated exposure to adjusted operating income fluctuations resulting from changes in foreign currency exchange rates relating to our international operations, measured at the 95% confidence level and using a one-month time horizon, was $110 million at December 31, 2002 and $45 million at December 31, 2001.

Our average monthly Value-at-Risk for foreign currency assets not hedged to U.S. dollars from foreign currency exchange rate movements, measured at the 95% confidence level over a one month time horizon, was $15 million during 2002 and $13 million during 2001.

Derivatives

Derivatives are financial instruments whose values are derived from interest rates, foreign exchange rates, financial indices, or the prices of securities or commodities. Derivative financial instruments may be exchange-traded or contracted in the over-the-counter market and include swaps, futures, options and forward contracts. See Note 20 to the Consolidated Financial Statements for a summary of our derivative positions as of December 31, 2002 and 2001. Under insurance statutes, our insurance companies may use derivative financial instruments to hedge actual or anticipated changes in their assets or liabilities, to replicate cash market instruments or for certain income-generating activities. These statutes generally prohibit the use of derivatives for speculative purposes. We use derivative financial instruments primarily to seek to reduce market risk from changes in interest rates or foreign currency exchange rates, and to alter interest rate or foreign currency exposures arising from mismatches between assets and liabilities. In addition, derivatives are used in our securities operations for trading purposes.

Trading Activities

We engage in trading activities primarily in connection with our securities businesses. We maintain trading inventories in various equity and fixed-income securities, foreign exchange instruments and commodities, primarily to facilitate transactions for our clients. Market risk affects the values of our trading inventories through fluctuations in absolute or relative interest rates, credit spreads, foreign currency exchange rates, securities and commodity prices. We seek to use short security positions and forwards, futures, options and other derivatives to limit exposure to interest rate and other market risks. We also trade derivative financial instruments that allow our clients to manage exposure to interest rate, currency and other market risks. Most of our derivative transactions involve exchange-listed contracts and are short-term in duration. We act both as a broker, by selling exchange-listed contracts, and as a dealer, by entering into futures and security transactions as a principal. As a broker, we assume counterparty and credit risks that we seek to mitigate by using margin or other credit enhancements and by establishing trading limits and credit lines. As a dealer, we are subject to market risk as well as counterparty and credit risk. We manage the market risk associated with trading activities through hedging activities and formal policies, risk and position limits, counterparty and credit limits, daily position monitoring, and other forms of risk management.

Value-at-Risk

VaR is one of the tools we use to monitor and manage our exposure to the market risk of our trading activities. We calculate a VaR that encompasses our trading activities using a 95% confidence level. The VaR method incorporates the risk factors to which the market value of our trading activities is exposed, which consist of interest rates, including credit spreads, foreign exchange rates, equity prices and commodity prices, estimates of volatilities from historical data, the sensitivity of our trading activities to changes in those market factors and

the correlations of those factors. We regularly test our VaR model by comparing actual adverse results to those estimated by the VaR model with a 95% confidence level over a one-day time horizon. The VaR for our trading activities expressed in terms of adverse changes to fair value at the 95% confidence level over a one-day time horizon was $2 million at December 31, 2002 and $5 million at December 31, 2001. The average daily VaR for our trading activities, expressed in terms of adverse changes to fair value with a 95% confidence level over a one-day time horizon, was $4 million during 2002 and $6 million during 2001. The following table sets forth a breakdown of this VaR by risk component as follows:

	As of December 31, 2002	Average for 2002	As of December 31, 2001	Average for 2001
	(in millions)			
Interest rate risk	$ 2	$ 4	$ 5	$ 5
Equity risk	—	—	—	1
Total(1)	$ 2	$ 4	$ 5	$ 6

(1) At December 31, 2002 and 2001, and during the years then ended, VaR from each of foreign currency exchange rate risk and commodity risk in our trading activities was immaterial.

Limitations of VaR Models

Although VaR models represent a recognized tool for risk management, they have inherent limitations, including reliance on historical data that may not be indicative of future market conditions or trading patterns. Accordingly, you should not view VaR models as a predictor of future results. We may incur losses that could be materially in excess of the amounts indicated by the models on a particular trading day or over a period of time, and there have been instances when results have fallen outside the values generated by our VaR models. A VaR model does not estimate the greatest possible loss. We use these models together with other risk management tools, including stress testing. The results of these models and analysis thereof are subject to the judgment of our risk management personnel.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED FINANCIAL STATEMENTS
INDEX

	Page Number
Report of Independent Accountants	137
Consolidated Statements of Financial Position as of December 31, 2002 and 2001	138
Consolidated Statements of Operations for the years ended December 31, 2002, 2001 and 2000	139
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2002, 2001 and 2000	140
Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2001 and 2000	141
Notes to Consolidated Financial Statements	142
Supplemental Combining Financial Information:	
Supplemental Combining Statements of Financial Position as of December 31, 2002 and 2001	206
Supplemental Combining Statements of Operations for the years ended December 31, 2002 and 2001	207
Notes to Supplemental Combining Financial Information	208

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of
Prudential Financial, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Prudential Financial, Inc. and its subsidiaries at December 31, 2002 and 2001, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the index appearing under Item 15 (a)(2) present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedules are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying supplemental combining financial information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual components. Such supplemental information has been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

As described in Notes 2, 3 and 8, the Company adopted Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* and Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* as of January 1, 2002.

/S/ PRICEWATERHOUSECOOPERS LLP

New York, New York
February 11, 2003

PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Financial Position
December 31, 2002 and 2001 (in millions, except share amounts)

	2002	2001
ASSETS		
Fixed maturities:		
Available for sale, at fair value (amortized cost: 2002—$117,869; 2001—$107,464)	$ 125,463	$ 109,942
Held to maturity, at amortized cost (fair value: 2002—$2,673; 2001—$395)	2,612	374
Trading account assets, at fair value	3,449	5,043
Equity securities, available for sale, at fair value (cost: 2002—$2,849; 2001—$2,252)	2,807	2,272
Commercial loans	19,287	19,729
Policy loans	8,827	8,570
Securities purchased under agreements to resell	4,844	4,421
Cash collateral for borrowed securities	4,978	5,210
Other long-term investments	5,408	5,418
Short-term investments	5,419	4,855
Total investments	183,094	165,834
Cash and cash equivalents	9,898	18,536
Accrued investment income	1,790	1,828
Broker-dealer related receivables	5,631	7,802
Deferred policy acquisition costs	7,031	6,868
Other assets	14,747	15,004
Separate account assets	70,555	77,158
TOTAL ASSETS	$ 292,746	$ 293,030
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Future policy benefits	$ 90,460	$ 86,991
Policyholders' account balances	46,280	43,333
Unpaid claims and claim adjustment expenses	3,428	3,408
Policyholders' dividends	3,675	2,096
Securities sold under agreements to repurchase	14,902	12,385
Cash collateral for loaned securities	10,231	9,427
Income taxes payable	1,933	1,332
Broker-dealer related payables	4,838	6,445
Securities sold but not yet purchased	1,996	2,791
Short-term debt	3,469	5,405
Long-term debt	4,757	5,304
Other liabilities	14,202	15,812
Separate account liabilities	70,555	77,158
Total liabilities	270,726	271,887
Guaranteed beneficial interest in Trust holding solely debentures of Parent	690	690
COMMITMENTS AND CONTINGENCIES (See Note 22)		
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; 584,511,144 and 583,582,767 shares issued at December 31, 2002 and 2001, respectively)	6	6
Class B Stock ($.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at December 31, 2002 and 2001)	—	—
Additional paid-in capital	19,513	19,462
Common stock held in treasury, at cost (24,283,271 shares at December 31, 2002)	(743)	—
Deferred compensation	(21)	—
Accumulated other comprehensive income	2,585	944
Retained earnings (deficit)	(10)	41
Total stockholders' equity	21,330	20,453
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 292,746	$ 293,030

See Notes to Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Operations

Years Ended December 31, 2002, 2001 and 2000 (in millions, except per share amounts)

	2002	2001	2000
REVENUES			
Premiums	$ 13,531	$ 12,477	$ 10,181
Policy charges and fee income	1,653	1,803	1,639
Net investment income	8,832	9,138	9,479
Realized investment losses, net	(1,358)	(671)	(266)
Commissions and other income	4,017	4,324	5,299
Total revenues	26,675	27,071	26,332
BENEFITS AND EXPENSES			
Policyholders' benefits	13,658	12,752	10,640
Interest credited to policyholders' account balances	1,846	1,804	1,751
Dividends to policyholders	2,644	2,722	2,724
General and administrative expenses	8,463	9,346	9,875
Capital markets restructuring	—	—	476
Demutualization costs and expenses	—	588	143
Total benefits and expenses	26,611	27,212	25,609
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	64	(141)	723
Income taxes:			
Current	(84)	(904)	426
Deferred	(108)	870	(28)
Total income tax expense (benefit)	(192)	(34)	398
INCOME (LOSS) FROM CONTINUING OPERATIONS	256	(107)	325
DISCONTINUED OPERATIONS			
Income (loss) from discontinued operations, net of taxes	(62)	(47)	73
NET INCOME (LOSS)	$ 194	$ (154)	$ 398
EARNINGS PER SHARE (See Note 15)			
Financial Services Businesses(a)			
Basic and Diluted:			
Income from continuing operations per share of Common Stock	$ 1.36	$ 0.07	
Discontinued operations	(0.11)	—	
Net income per share of Common Stock	$ 1.25	$ 0.07	
Closed Block Business(a)			
Net income (loss) per share of Class B Stock	$ (264.00)	$ 1.50	

(a) Earnings per share amounts for 2001 are for the period December 18, 2001 through December 31, 2001.

See Notes to Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2002, 2001 and 2000 (in millions)

	Common Stock		Class B Stock	Additional Paid-in Capital	Retained Earnings (Deficit)	Common Stock Held in Treasury	Deferred Compensation	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount							
Balance, December 31, 1999	—	$ —	$ —	$ —	$ 19,976	$ —	$ —	$ (685)	$ 19,291
Comprehensive income:									
Net income	—	—	—	—	398	—	—	—	398
Other comprehensive income, net of tax	—	—	—	—	—	—	—	919	919
Total comprehensive income									1,317
Balance, December 31, 2000	—	—	—	—	20,374	—	—	234	20,608
Common Stock issued in demutualization	457.1	5	—	15,985	(15,990)	—	—	—	—
Policy credits issued and cash payments to be made to eligible policyholders	—	—	—	—	(4,189)	—	—	—	(4,189)
Initial public offering of Common Stock	126.5	1	—	3,336	—	—	—	—	3,337
Private placement of Class B Stock	—	—	—	167	—	—	—	—	167
Equity security units	—	—	—	(26)	—	—	—	—	(26)
Comprehensive income:									
Net loss before the date of demutualization	—	—	—	—	(195)	—	—	—	(195)
Net income after the date of demutualization	—	—	—	—	41	—	—	—	41
Other comprehensive income, net of tax	—	—	—	—	—	—	—	710	710
Total comprehensive income									556
Balance, December 31, 2001	583.6	6	—	19,462	41	—	—	944	20,453
Stock-based compensation	—	—	—	4	—	—	—	—	4
Treasury stock acquired	(26.0)	—	—	—	—	(800)	—	—	(800)
Treasury stock reissued for exercise of stock options	—	—	—	—	—	1	—	—	1
Treasury stock reissued to deferred compensation program	1.7	—	—	—	—	56	—	—	56
Deferred compensation program	—	—	—	—	—	—	(21)	—	(21)
Adjustments to policy credits issued and cash payments to eligible policyholders	0.9	—	—	47	—	—	—	—	47
Dividends declared on Common Stock	—	—	—	—	(226)	—	—	—	(226)
Dividends declared on Class B Stock	—	—	—	—	(19)	—	—	—	(19)
Comprehensive income:									
Net income	—	—	—	—	194	—	—	—	194
Other comprehensive income, net of tax	—	—	—	—	—	—	—	1,641	1,641
Total comprehensive income									1,835
Balance, December 31, 2002	560.2	$ 6	$ —	$ 19,513	$ (10)	$ (743)	$ (21)	$ 2,585	$ 21,330

See Notes to Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Consolidated Statements of Cash Flows
Years Ended December 31, 2002, 2001 and 2000 (in millions)

	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income (loss)	$ 194	$ (154)	$ 398
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Realized investment losses, net	1,358	671	266
Policy charges and fee income	(486)	(482)	(342)
Interest credited to policyholders' account balances	1,846	1,804	1,751
Depreciation and amortization, including premiums and discounts	559	433	740
Change in:			
Deferred policy acquisition costs	(211)	(259)	(228)
Future policy benefits and other insurance liabilities	2,026	933	1,473
Trading account assets	1,596	2,268	2,524
Income taxes payable	(205)	(1,282)	214
Broker-dealer related receivables/payables	564	4,538	(388)
Securities purchased under agreements to resell	(423)	974	8,549
Cash collateral for borrowed securities	248	(1,352)	3,266
Cash collateral for loaned securities	788	(1,626)	278
Securities sold but not yet purchased	(795)	(2,168)	(2,009)
Securities sold under agreements to repurchase	2,517	(2,625)	(9,588)
Other, net	405	(1,591)	961
Cash flows from operating activities	9,981	82	7,865
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from the sale/maturity of:			
Fixed maturities, available for sale	60,529	98,150	99,971
Fixed maturities, held to maturity	418	139	3,266
Equity securities, available for sale	2,050	5,503	3,025
Commercial loans	3,103	5,443	1,632
Other long-term investments	1,080	798	2,044
Payments for the purchase of:			
Fixed maturities, available for sale	(71,539)	(97,511)	(103,086)
Fixed maturities, held to maturity	(2,701)	(56)	(1,544)
Equity securities, available for sale	(2,830)	(2,557)	(2,316)
Commercial loans	(2,511)	(1,521)	(1,334)
Other long-term investments	(1,357)	(1,400)	(1,374)
Cash acquired from the acquisition of subsidiary	—	5,912	—
Short-term investments	(294)	(442)	(2,257)
Cash flows from (used in) investing activities	(14,052)	12,458	(1,973)
CASH FLOWS FROM FINANCING ACTIVITIES			
Policyholders' account deposits	8,973	6,771	6,813
Policyholders' account withdrawals	(7,464)	(9,014)	(8,186)
Proceeds from the issuance of Common Stock	—	3,337	—
Proceeds from the issuance of Class B Stock	—	167	—
Proceeds from the issuance of equity security units	—	663	—
Cash dividends paid on Common Stock	(173)	—	—
Cash dividends paid on Class B Stock	(19)	—	—
Net decrease in short-term debt	(2,170)	(6,098)	(2,678)
Proceeds from deferred compensation program	56	—	—
Treasury stock acquired	(782)	—	—
Treasury stock reissued for exercise of stock options	1	—	—
Proceeds from the issuance of long-term debt	122	3,214	638
Repayments of long-term debt	(542)	(720)	(1,230)
Cash payments to eligible policyholders	(2,569)	—	—
Cash flows used in financing activities	(4,567)	(1,680)	(4,643)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,638)	10,860	1,249
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	18,536	7,676	6,427
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 9,898	$ 18,536	$ 7,676
SUPPLEMENTAL CASH FLOW INFORMATION			
Income taxes paid	$ 57	$ 466	$ 248
Interest paid	$ 458	$ 638	$ 1,040
NON-CASH TRANSACTIONS DURING THE YEAR			
Policy credits issued and demutualization consideration payable to eligible policyholders	$ —	$ 4,529	$ —

See Notes to Consolidated Financial Statements

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

1. BUSINESS

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 three operating divisions: Insurance, Investment, and International Insurance and Investments. 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 includes the Closed Block (see Note 10), is managed separately from the Financial Services Businesses. The Closed Block Business was established on the date of demutualization and includes the Company's in force participating insurance and annuity products and assets that are used for the payment of benefits and 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. The demutualization was completed in accordance with the Company's Plan of Reorganization, which was approved by the Commissioner of Banking and Insurance of the State of New Jersey in October 2001.

On the date of demutualization, policyholder membership interests in Prudential Insurance were extinguished and eligible policyholders collectively received shares of Common Stock, the rights to receive cash and increases to their policy values in the form of policy credits. The demutualization was accounted for as a reorganization. Accordingly, the Company's retained earnings on the date of demutualization, after the distribution of the above consideration, was reclassified to "Common Stock" and "Additional paid-in capital." At the time of demutualization, Prudential Financial completed an initial public offering of 126.5 million shares of Common Stock at a price of $27.50 per share which included 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. In addition to the issuances of Common Stock and Class B Stock, on the date of demutualization, Prudential Financial issued 13.8 million 6.75% equity security units at a price of $50 per unit (see Note 13) and Prudential Holdings, LLC, a wholly owned subsidiary of Prudential Financial, issued $1.75 billion in senior secured notes (see Note 12).

Concurrent with the demutualization, Prudential Insurance completed a corporate reorganization whereby various subsidiaries (and certain related assets and liabilities) of Prudential Insurance were dividended 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.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The 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 majority 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. 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.

Use of Estimates

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 costs, investments, 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.

Earnings Per Share

As discussed in Note 1 under "Demutualization and Initial Public Offering," the Company has outstanding two separate classes of common stock. Basic earnings per share is computed by dividing available income attributable to each of the two groups of common shareholders by the respective weighted average number of common shares outstanding for the period. Diluted earnings per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised.

Stock Options

During 2002 and 2001, the Company accounted for employee stock options using the intrinsic value method of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under this method, the Company did not recognize any stock-based compensation expense for employee stock options as all options granted had an exercise price equal to the market value of the underlying Common Stock on the date of grant. Effective January 1, 2003, the Company changed its accounting for employee stock options to adopt the fair value recognition provisions of Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," as amended, prospectively for all new awards granted to employees on or after January 1, 2003. The Company accounts for non-employee stock options using the fair value method. See Note 16 for pro forma net income and earnings per share, as well as additional information pertaining to stock options.

Investments

Fixed maturities classified as "available for sale" are carried at estimated fair value. Fixed maturities that the Company has both the positive intent and ability to hold to maturity are stated at amortized cost and classified as "held to maturity." The amortized cost of all fixed maturities is written down to estimated fair value when a decline in value is considered to be other than temporary. See the discussion below on realized investment gains and losses for a description of the accounting for impairment adjustments. Unrealized gains and losses on fixed maturities "available for sale," net of income tax and the effect on deferred policy acquisition costs, future policy benefits and policyholders' dividends that would result from the realization of unrealized gains and losses, are included in a separate component of equity, "Accumulated other comprehensive income (loss)."

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Trading account assets, and securities sold but not yet purchased, consist primarily of investments and derivatives used by the Company either in its capacity as a broker-dealer, its operation of hedge portfolios or its use of derivatives for asset and liability management activities. These instruments are carried at estimated fair value. Realized and unrealized gains and losses on trading account assets and securities sold but not yet purchased are included in "Commissions and other income."

Equity securities, available for sale, are comprised of common and non-redeemable preferred stock and are carried at estimated fair value. The associated unrealized gains and losses, net of income tax and the effect on deferred policy acquisition costs, future policy benefits and policyholders' dividends that would result from the realization of unrealized gains and losses, are included in "Accumulated other comprehensive income (loss)." The cost of equity securities is written down to estimated fair value when a decline in value is considered to be other than temporary. See the discussion below on realized investment gains and losses for a description of the accounting for impairment adjustments.

Commercial loans are stated primarily at unpaid principal balances, net of unamortized discounts and an allowance for losses. In connection with the acquisition of Gibraltar Life (see Note 5), commercial loans were acquired at a discount to par and are carried at amortized cost. Accretion of the discount over the remaining lives of the loans is included in "Net investment income." The allowance for losses includes a loan specific reserve for non-performing loans and a portfolio reserve for incurred but not specifically identified losses. Non-performing loans include those loans for which it is probable that amounts due according to the contractual terms of the loan agreement will not all be collected. These loans are measured at the present value of expected future cash flows discounted at the loan's effective interest rate, or at the fair value of the collateral if the loan is collateral dependent. Interest received on non-performing loans, including loans that were previously modified in a troubled debt restructuring, is either applied against the principal or reported as revenue, according to management's judgment as to the collectibility of principal. Management discontinues accruing interest on non-performing loans after the loans are 90 days delinquent as to principal or interest, or earlier when management has serious doubts about collectibility. When a loan is recognized as non-performing, any accrued but uncollectible interest is reversed against interest income of the current period. Generally, a loan is restored to accrual status only after all delinquent interest and principal are brought current and, in the case of loans where the payment of interest has been interrupted for a substantial period, a regular payment performance has been established. The portfolio reserve for incurred but not specifically identified losses considers the Company's past loan loss experience, the current credit composition of the portfolio, historical credit migration, property type diversification, default and loss severity statistics and other relevant factors.

Policy loans are carried at unpaid principal balances.

Securities purchased under agreements to resell and securities sold under agreements to repurchase are treated as collateralized financing arrangements and are carried at the amounts at which the securities will be subsequently resold or reacquired, including accrued interest, as specified in the respective agreements. The Company's policy is to take possession or control of securities purchased under agreements to resell and to value the securities daily. Assets to be repurchased are the same, or substantially the same, as the assets transferred. The market value of securities to be repurchased or resold is monitored, and additional collateral is obtained, where appropriate, to protect against credit exposure.

Securities borrowed and securities loaned are treated as financing arrangements and are recorded at the amount of cash advanced or received. With respect to securities loaned, the Company obtains collateral in an amount equal to 102% and 105% of the fair value of the domestic and foreign securities, respectively. The Company monitors the market value of securities borrowed and loaned on a daily basis with additional collateral obtained as necessary. Substantially all of the Company's securities borrowed transactions are with brokers and dealers, commercial banks and institutional clients. Substantially all of the Company's securities loaned transactions are with large brokerage firms.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Securities repurchase and resale agreements and securities borrowed and loaned transactions are used to generate net investment income and facilitate trading activity. These instruments are short-term in nature (usually 30 days or less) and are collateralized principally by U.S. Government and mortgage-backed securities. Because of their short term, the carrying amounts of these instruments approximate fair value.

Other long-term investments consist of the Company's investments in joint ventures and limited partnerships in which the Company does not exercise control. Other long-term investments also include investments in the Company's own separate accounts, which are carried at estimated fair value, and investments in real estate. Joint venture and partnership interests are generally accounted for using the equity method of accounting, reduced for other than temporary declines in value, except in instances in which the Company's interest is so minor that it exercises virtually no influence over operating and financial policies. In such instances, the Company applies the cost method of accounting. The Company's net income from investments in joint ventures and partnerships is generally included in "Net investment income." However, for certain real estate joint ventures, Prudential's interest is liquidated by means of one or more transactions that result in the sale of the underlying invested assets to third parties and the ultimate distribution of the proceeds to Prudential and other joint venture partners in exchange for and settlement of the respective joint venture interests. These transactions are accounted for as disposals of Prudential's joint venture interests and the resulting gains and losses are included in "Realized investment gains (losses), net."

Real estate held for disposal is carried at the lower of depreciated cost or fair value less estimated selling costs and is not further depreciated once classified as such. Real estate which the Company has the intent to hold for the production of income is carried at depreciated cost less any write-downs to fair value for impairment losses and is reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. An impairment loss is recognized when the review indicates that the carrying value of the investment real estate exceeds the estimated undiscounted future cash flows (excluding interest charges) from the investment. At that time, the carrying value of the investment real estate is written down to fair value. Depreciation on real estate held for the production of income is computed using the straight-line method over the estimated lives of the properties, and is included in "Net investment income."

Short-term investments consist of highly liquid debt instruments with a maturity of greater than three months and less than twelve months when purchased. These investments are carried at amortized cost which, because of their short term, approximates fair value.

Realized investment gains (losses), net are computed using the specific identification method. Costs of fixed maturities and equity securities are adjusted for impairments, which are declines in value that are considered to be other than temporary. Impairment adjustments are included in "Realized investment gains (losses), net." In evaluating whether a decline in value is other than temporary, the Company considers several factors including, but not limited to the following: (1) whether the decline is substantial; (2) the duration (generally greater than six months); (3) the reasons for the decline in value (credit event, interest related or market fluctuation); (4) the Company's ability and intent to hold the investments for a period of time to allow for a recovery of value; and (5) the financial condition of and near-term prospects of the issuer. Provisions for losses on commercial loans are included in "Realized investment gains (losses), net." Decreases in the carrying value of investment real estate held for disposal or for the production of income are recorded in "Realized investment gains (losses), net."

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, amounts due from banks, money market instruments and other debt issues with a maturity of three months or less when purchased.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Deferred Policy Acquisition Costs

The costs that vary with and that are related primarily to the production of new insurance and annuity business are deferred to the extent such costs are deemed recoverable from future profits. Such costs include commissions, costs of policy issuance and underwriting, and variable field office expenses. Deferred policy acquisition costs ("DAC") are subject to recoverability testing at the end of each accounting period. Deferred policy acquisition costs, for applicable products, are adjusted for the impact of unrealized gains or losses on investments as if these gains or losses had been realized, with corresponding credits or charges included in "Accumulated other comprehensive income (loss)."

For participating life insurance included in the Closed Block, DAC is amortized over the expected life of the contracts (up to 45 years) in proportion to estimated gross margins based on historical and anticipated future experience, which is evaluated regularly. The average rate of assumed future investment yield used in estimating expected gross margins was 7.31% at December 31, 2002 and gradually increases to 8.06% for periods after December 31, 2031. The effect of changes in estimated gross margins on unamortized deferred acquisition costs is reflected in "General and administrative expenses" in the period such estimated gross margins are revised. Policy acquisition costs related to interest-sensitive and variable life products and certain investment-type products are deferred and amortized over the expected life of the contracts (periods ranging from 7 to 30 years) in proportion to estimated gross profits arising principally from investment results, mortality and expense margins, and surrender charges based on historical and anticipated future experience, which is updated periodically. The effect of changes to estimated gross profits on unamortized deferred acquisition costs is reflected in "General and administrative expenses" in the period such estimated gross profits are revised. DAC related to non-participating traditional individual life insurance is amortized over the expected life of the contracts in proportion to premiums.

The Company has offered programs under which policyholders, for a selected product or group of products, can exchange an existing policy or contract issued by the Company for another form of policy or contract. These transactions are known as internal replacements. If policyholders surrender traditional life insurance policies in exchange for life insurance policies that do not have fixed and guaranteed terms, the Company immediately charges to expense an estimate of the remaining unamortized DAC on the surrendered policies. For other internal replacement transactions, the unamortized DAC on the surrendered policies is immediately charged to expense if the terms of the new policies are not substantially similar to those of the former policies. If the new policies have terms that are substantially similar to those of the earlier policies, the DAC is retained with respect to the new policies and amortized over the life of the new policies.

For property and casualty insurance contracts, DAC is amortized over the period in which related premiums are earned. Future investment income is considered in determining the recoverability of DAC.

For group annuity defined contribution contracts, acquisition expenses are deferred and amortized over the expected life of the contracts in proportion to estimated gross profits. For group and individual long term care contracts, acquisition expenses are deferred and amortized over the expected life of the contracts in proportion to premiums. For other group life and disability insurance, group annuities and guaranteed investment contracts, acquisition costs are expensed as incurred.

Separate Account Assets and Liabilities

Separate account assets and liabilities are reported at estimated fair value and represent segregated funds which are invested for certain policyholders, pension funds and other customers. The assets consist of common stocks, fixed maturities, real estate related investments, real estate mortgage loans and short-term investments. The assets of each account are legally segregated and are generally not subject to claims that arise out of any

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

other business of the Company. Investment risks associated with market value changes are borne by the customers, except to the extent of minimum guarantees made by the Company with respect to certain accounts. The investment income and gains or losses for separate accounts generally accrue to the policyholders and are not included in the Consolidated Statements of Operations. Mortality, policy administration and surrender charges on the accounts are included in "Policy charges and fee income." Asset management fees charged to the accounts are included in "Commissions and other income."

Other Assets and Other Liabilities

Other assets consist primarily of prepaid benefit costs, reinsurance recoverables, certain restricted assets, trade receivables, goodwill and other intangible assets, mortgage securitization inventory, property and equipment, and receivables resulting from sales of securities that had not yet settled at the balance sheet date. Commercial mortgage loans and other securities sold by the Company in securitization transactions were $615 million, $1,409 million and $1,874 million during 2002, 2001 and 2000, respectively. In commercial loan securitizations, the Company retains servicing responsibilities. The Company did not retain any material ownership interest in the financial assets that were transferred. The Company recognized pre-tax gains (losses) of $4 million, $42 million and $(6) million for the years ended December 31, 2002, 2001 and 2000, respectively, in connection with securitization and related hedging activity which are recorded in "Commissions and other income." Property and equipment are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the related assets which generally range from 3 to 40 years. Other liabilities consist primarily of trade payables, employee benefit liabilities, demutualization consideration not yet paid to policyholders, and payables resulting from purchases of securities that had not yet settled at the balance sheet date.

Contingencies

Amounts related to contingencies are accrued if it is probable that a liability has been incurred and an amount is reasonably estimable. Management evaluates whether there are incremental legal or other costs directly associated with the ultimate resolution of the matter that are reasonably estimable and, if so, they are included in the accrual.

Policyholders' Dividends

The amount of the dividends to be paid to policyholders of Prudential Insurance is determined annually by its Board of Directors. The aggregate amount of policyholders' dividends is based on the statutory results and past experience of Prudential Insurance, including investment income, net realized investment gains or losses over a number of years, mortality experience and other factors. See Note 10 for further discussion of the impact of policyholders' dividends on earnings.

Insurance Revenue and Expense Recognition

Premiums from life insurance policies, excluding interest-sensitive life contracts, are recognized when due. Benefits are recorded as an expense when they are incurred. A liability for future policy benefits is recorded when premiums are recognized using the net level premium method.

Premiums from non-participating group annuities with life contingencies are recognized and earned over the life of the contracts. For single premium immediate annuities and structured settlements with life contingencies, premiums are recognized when earned in a constant relationship to the amount of expected future benefit payments.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Certain annuity contracts provide the holder a guarantee that the benefit received upon death will be no less than a minimum prescribed amount that is based upon a combination of net deposits to the contract, net deposits to the contract accumulated at a specified rate or the highest historical account value on a contract anniversary. To the extent the guaranteed minimum death benefit exceeds the current account value at the time of death, the Company incurs a cost that is recorded as "Policyholders' benefits" for the period in which death occurs.

Amounts received as payment for interest-sensitive life contracts, deferred annuities, structured settlements, contracts without life contingencies and participating group annuities are reported as deposits to "Policyholders' account balances." Revenues from these contracts are reflected in "Policy charges and fee income" and consist primarily of fees assessed during the period against the policyholders' account balances for mortality charges, policy administration charges and surrender charges. Benefits and expenses for these products include claims in excess of related account balances, expenses of contract administration, interest credited and amortization of DAC.

For group life and disability insurance, and property and casualty insurance, premiums are recognized over the period to which the premiums relate in proportion to the amount of insurance protection provided. Claim and claim adjustment expenses are recognized when incurred.

Premiums, benefits and expenses are stated net of reinsurance ceded to other companies. Estimated reinsurance recoverables and the cost of reinsurance are recognized over the life of the reinsured policies using assumptions consistent with those used to account for the underlying policies.

Foreign Currency Translation Adjustments

Assets and liabilities of foreign operations and subsidiaries reported in other than U.S. dollars are translated at the exchange rate in effect at the end of the period. Revenues, benefits and other expenses are translated at the average rate prevailing during the period. The effects of translating the statements of financial position of non-U.S. entities with functional currencies other than the U.S. dollar are included, net of related hedge gains and losses and income taxes, in "Accumulated other comprehensive income (loss)."

Commissions and Other Income

Commissions and other income principally includes securities and commodities commission revenues and asset management fees which are recognized in the period in which the services are performed. Realized and unrealized gains from trading activities of the Company's securities and investment management businesses are also included in "Commissions and other income."

Derivative Financial Instruments

The Company adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended, on January 1, 2001. Except as noted below, the adoption of this statement did not have a material impact on the results of operations of the Company.

Upon its adoption of SFAS No. 133, the Company reclassified "held to maturity" securities with a fair market value of approximately $12,085 million to "available-for-sale" as permitted by the new standard. This reclassification resulted in unrealized investment gains of $94 million, net of tax, which were recorded as a component of "Accumulated other comprehensive income (loss)."

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

Derivatives are used to manage the characteristics of the Company's asset/liability mix, manage the interest rate and currency characteristics of invested assets and to mitigate the risk of a diminution, upon translation to U.S. dollars, of expected non-U.S. earnings resulting from unfavorable changes in currency exchange rates. They are also used in a derivative dealer capacity in the Company's securities operations to meet the needs of clients by structuring transactions that allow clients to manage their exposure to interest rates, foreign exchange rates, indices or prices of securities and commodities and similarly in a dealer capacity through the operation of hedge portfolios in a limited-purpose subsidiary. Additionally, derivatives may be used to seek to reduce exposure to interest rate and foreign currency risks associated with assets held or expected to be purchased or sold, and liabilities incurred or expected to be incurred.

Derivatives are recorded in the Consolidated Statements of Financial Position either as assets, within "Trading account assets" or "Broker-dealer related receivables," or as liabilities within "Broker-dealer related payables" or "Other liabilities." Realized and unrealized changes in fair value of derivatives used in a dealer capacity are included in "Commissions and other income" in the Consolidated Statements of Operations in the periods in which the changes occur. Cash flows from such derivatives are reported in the operating activities section of the Consolidated Statements of Cash Flows.

As discussed in detail below and in Note 20, all realized and unrealized changes in fair value of non-dealer related derivatives, with the exception of the effective unrealized portion of cash flow hedges and effective hedges of net investment in foreign operations, are recorded in current earnings. Cash flows from these derivatives are reported in the investing activities section in the Consolidated Statements of Cash Flows.

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

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

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

When a derivative is designated as a fair value hedge and is determined to be highly effective, changes in its fair value, along with changes in the fair value of the hedged asset or liability (including losses or gains on firm commitments), are reported on a net basis in the income statement line item associated with the hedged item.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Under certain circumstances, the change in fair value of an unhedged item is either not recorded or recorded instead in "Accumulated other comprehensive income (loss)." When such items are hedged and the hedge qualifies as a fair value hedge, the change in fair value of both the hedged item and the derivative are reported on a net basis in "Realized investment gains (losses), net." Periodic settlements associated with such derivatives are recorded in the same income statement line as the related settlements of the hedged items.

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

When a derivative is designated as a foreign currency hedge and is determined to be highly effective, changes in its fair value are recorded in either current period earnings or "Accumulated other comprehensive income (loss)," depending on whether the hedge transaction is a fair value hedge (*e.g.*, a hedge of a firm commitment that is to be settled in a foreign currency) or a cash flow hedge (*e.g.*, a foreign currency denominated forecasted transaction). When a derivative is used as a hedge of a net investment in a foreign operation, its change in fair value, to the extent effective as a hedge, is recorded in the cumulative translation adjustment account within "Accumulated other comprehensive income (loss)."

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

The Company occasionally is a party to a financial instrument that contains a derivative instrument that is "embedded" in the financial instrument. At inception, the Company assesses whether the economic characteristics of the embedded derivative are clearly and closely related to the economic characteristics of the remaining component of the financial instrument (*i.e.*, the host contract) and whether a separate instrument with the same terms as the embedded instrument would meet the definition of a derivative instrument. When it is determined that (1) the embedded derivative possesses economic characteristics that are not clearly and closely related to the economic characteristics of the host contract, and (2) a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is separated from the host contract, carried at fair value, and changes in its fair value are included in "Realized investment gains (losses), net."

The Company discontinues hedge accounting prospectively when (1) it is determined that the derivative is no longer highly effective in offsetting changes in the fair value or cash flows of a hedged item (including firm commitments or forecasted transactions); (2) the derivative expires or is sold, terminated, or exercised; or (3) the derivative is no longer designated as a hedge instrument, because (a) it is unlikely that a forecasted transaction will occur; (b) because a hedged firm commitment no longer meets the definition of a firm commitment; or (c) management determines that designation of the derivative as a hedge instrument is no longer appropriate. When hedge accounting is discontinued, any hedged asset or liability, which otherwise would not be carried at fair value, will no longer be adjusted for changes in fair value.

Income Taxes

The Company and its domestic subsidiaries file a consolidated federal income tax return that includes both life insurance companies and non-life insurance companies. In addition to taxes on operations, the Internal Revenue Code imposes an "equity tax" on mutual life insurance companies. Subsequent to the demutualization, the Company is no longer subject to the equity tax. Subsidiaries operating outside the United States are taxed, and income tax expense is recorded, based on applicable foreign statutes.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Deferred income taxes are recognized, based on enacted rates, when assets and liabilities have different values for financial statement and tax reporting purposes. A valuation allowance is recorded to reduce a deferred tax asset to the amount expected to be realized.

Demutualization Costs and Expenses

Demutualization costs and expenses include the cost of engaging external accounting, actuarial, investment banking, legal and other consultants to advise the Company, the New Jersey Department of Banking and Insurance and the New York State Insurance Department in the demutualization process and related matters as well as the cost of printing and postage for communications with policyholders and other administrative costs. Demutualization costs and expenses for the year ended December 31, 2001 also include $340 million of demutualization consideration paid to former Canadian branch policyholders pertaining to certain policies that Prudential Insurance transferred to London Life Insurance Company in 1996 in connection with the sale of most of its Canadian branch operations. Under the Plan of Reorganization, these policyholders were required to receive demutualization compensation in the form of cash. All demutualization costs and expenses have been recorded in the periods prior to demutualization.

New Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board (the "FASB") issued 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 adopted SFAS No. 142 as of January 1, 2002. See Note 8 for additional information pertaining to goodwill and other intangible assets.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." SFAS No. 144 eliminated the requirement that discontinued operations be measured at net realizable value or that entities include losses that have not yet occurred. SFAS No. 144 eliminated the exception to consolidation for a subsidiary for which control is likely to be temporary. The implementation of this provision was not material to the Company's financial position. SFAS No. 144 requires that long-lived assets that are to be disposed of by sale be measured at the lower of book value or fair value less cost to sell. An impairment for assets that are not to be disposed of is recognized only if the carrying amounts of long-lived assets are not recoverable and exceed their fair values. Additionally, SFAS No. 144 expands the scope of discontinued operations to include all components of an entity with operations and cash flows that (1) can be distinguished from the rest of the entity and (2) will be eliminated from the ongoing operations of the entity in a disposal transaction. Consequently, certain activities included in discontinued operations in the accompanying financial statements would not have been recorded as discontinued operations prior to the adoption of SFAS No. 144. See Note 3 for additional information pertaining to discontinued operations. SFAS No. 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001 and, generally, its provisions are to be applied prospectively.

In July 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." SFAS No. 146 requires that a liability for costs associated with an exit or disposal activity be recognized and measured initially at fair value only when the liability is incurred. Prior to the adoption of SFAS No. 146, such amounts were recorded upon the Company's commitment to a restructuring plan. SFAS No. 146 is effective for exit or disposal activities that are initiated after December 31, 2002. Accordingly, the Company will adopt this statement for applicable transactions occurring on or after January 1, 2003.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

In November 2002, the FASB issued Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." FIN No. 45 expands existing accounting guidance and disclosure requirements for certain guarantees and requires the recognition of a liability for the fair value of certain types of guarantees issued or modified after December 31, 2002. The January 1, 2003 adoption of the Interpretation's guidance did not have a material effect on the Company's financial position. The disclosure requirements of the Interpretation have been incorporated in Note 22.

In January 2003, the FASB issued FIN No. 46, "Consolidation of Variable Interest Entities." FIN No. 46 addresses whether certain types of entities, referred to as variable interest entities ("VIEs"), should be consolidated in a company's financial statements. A VIE is an entity that either (1) has equity investors that lack certain essential characteristics of a controlling financial interest (including the ability to control the entity, the obligation to absorb the entity's expected losses and the right to receive the entity's expected residual returns), or (2) lacks sufficient equity to finance its own activities without financial support provided by other entities, which in turn would be expected to absorb at least some of the expected losses of the VIE. An entity should consolidate a VIE if it stands to absorb a majority of the VIE's expected losses or to receive a majority of the VIE's expected residual returns. The Company adopted the Interpretation for relationships with VIEs that began on or after February 1, 2003. The Company will implement the consolidation guidance by July 1, 2003 for VIEs with which the Company became involved prior to February 1, 2003. The Company is in the process of determining whether it will need to consolidate previously unconsolidated VIEs or to deconsolidate previously consolidated VIEs. Based upon its relationships with such entities, the Company believes that the implementation of the consolidation guidance will not have a material effect on the Company's consolidated financial position.

Reclassifications

Certain amounts in prior years have been reclassified to conform to the current year presentation.

3. DISCONTINUED OPERATIONS

In the fourth quarter of 2002, the Company announced its decision to exit certain of the international securities operations of Prudential Securities Group Inc. in Europe. The exited operations include European retail transaction-oriented stockbrokerage and related activities. As a result of exiting these activities, the primary business of Prudential Securities Group Inc. in Europe is the provision of private banking and wealth management services to high net worth individuals. Institutional services in Europe are limited primarily to the sale of U.S. equities. The loss for the discontinued businesses for the year ended December 31, 2002 includes a pre-tax charge of $43 million relating primarily to severance and termination benefits and office closure costs. Also, in the fourth quarter of 2002, the Company decided to sell its retail broker-dealer operations in Tokyo and have included such in discontinued operations.

In the third quarter of 2002, the Company discontinued its web-based business for the workplace distribution of voluntary benefits. The loss for the year ended December 31, 2002 includes a pre-tax impairment charge of $32 million on the Company's investment in a vendor of that distribution platform, as well as a pre-tax charge of $7 million related to severance and contract termination costs.

In December 1998, the Company entered into a definitive agreement to sell its healthcare business to Aetna, Inc. ("Aetna"). The sale was completed on August 6, 1999. The Company retained all liabilities associated with litigation that existed at that date or commenced within two years of that date with respect to claims that were incurred prior to August 6, 1999 (see Note 22). Reserves relating to the healthcare business include the cost of resolving litigation and certain contractual and regulatory matters, as well as estimates of other costs in connection with the disposition of the business. The Company also established reserves in connection with a medical loss ratio agreement (the "MLR Agreement"), pursuant to which the Company was required to make

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

3. DISCONTINUED OPERATIONS *(continued)*

payments to Aetna in the event that the medical loss ratios *(i.e.*, incurred medical expense divided by earned premiums) of the sold businesses were less favorable than levels specified in the MLR Agreement for the years 1999 and 2000.

The loss the Company recorded upon the disposal of the healthcare business was reduced in each of the years ended December 31, 2002, 2001 and 2000. The reduction in 2000 was recorded upon the completion of the period covered by the MLR Agreement and took into consideration other disposal costs incurred compared with previous estimates. The reduction in 2001 was primarily attributable to the final settlement of the MLR Agreement. The reduction in 2002 was primarily the result of favorable resolution of certain legal and regulatory matters.

Although the Company no longer issues or renews healthcare policies, it was required to issue and renew policies for specified periods of time after the closing date, in order to provide for uninterrupted operation and growth of the business that Aetna acquired. All such policies were 100% coinsured by Aetna. Consequently, the following amounts pertaining to the coinsurance agreement had no effect on the Company's results of operations. Ceded premiums and benefits were $27 million and $17 million, respectively for the year ended December 31, 2002. Ceded premium and benefits for the year ended December 31, 2001 were $966 million and $827 million, respectively, and for the year ended December 31, 2000 were $1,872 million and $1,418 million, respectively. Reinsurance recoverable under this agreement, included in "Other assets," was $45 million at December 31, 2002 and $202 million at December 31, 2001.

Charges recorded in connection with the disposals of businesses include estimates that are subject to subsequent adjustment. It is possible that such adjustments might be material to future results of operations of a particular quarterly or annual period.

Results of operations of discontinued businesses, including charges upon disposition, for the years ended December 31, are as follows:

	2002	2001	2000
		(in millions)	
International securities operations	$ (75)	$ (39)	$ 24
Tokyo retail brokerage activities	(7)	(27)	(15)
Web-based workplace distribution of voluntary benefits	(58)	(20)	(5)
Healthcare operations	71	25	121
Income (loss) from discontinued operations before income taxes	(69)	(61)	125
Income tax expense (benefit)	(7)	(14)	52
Income (loss) from discontinued operations, net of taxes	$ (62)	$ (47)	$ 73

The Company's Consolidated Statements of Financial Position include total assets and total liabilities related to discontinued businesses of $1,297 million and $1,225 million, respectively, at December 31, 2002, and $1,568 million and $1,571 million, respectively, at December 31, 2001.

4. CAPITAL MARKETS RESTRUCTURING

In the fourth quarter of 2000, Prudential Securities Group Inc. exited the lead-managed equity underwriting for corporate issuers and institutional fixed income businesses. Exiting these businesses resulted in staff reductions of approximately 700 positions, 350 of which were eliminated in 2000 and the remainder in 2001. The positions eliminated included investment bankers, traders, analysts and other professional and support staff. Results for 2000 include a pre-tax charge of $476 million in connection with the restructuring, which is presented

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

4. CAPITAL MARKETS RESTRUCTURING *(continued)*

as "Capital markets restructuring." The charge includes $213 million for employee related costs, consisting largely of severance and termination benefits. The charge also includes the write-off of $140 million of goodwill previously recorded in connection with investment banking acquisitions. Remaining charges of $123 million consist of lease termination payments and other facility exit costs, including office equipment and leasehold improvements write-downs, and other related costs. As of December 31, 2002 and 2001, remaining reserves for capital markets restructuring costs were $13 million and $28 million, respectively.

5. ACQUISITION OF KYOEI LIFE INSURANCE COMPANY, LTD.

In April 2001, the Company completed the acquisition of Kyoei Life Insurance Co., Ltd. ("Kyoei"), a stock life insurance company located in Japan, which has been accounted for as a purchase. Kyoei was renamed Gibraltar Life Insurance Company, Ltd. ("Gibraltar Life") by the Company concurrent with the acquisition. Gibraltar Life provides financial services throughout Japan. Gibraltar Life primarily offers four types of insurance products: individual insurance, including life and indemnity health coverage; individual annuities; group life insurance; and group annuities. It distributes these products through an agency force and large employer groups. Gibraltar Life also has domestic and foreign subsidiaries, including non-insurance businesses, which are not material to its financial position or results of operations.

Prior to its acquisition, Gibraltar Life filed for reorganization under the Reorganization Law of Japan. The Reorganization Law, similar to Chapter 11 of the U.S. Bankruptcy Code, is intended to provide a mechanism for restructuring financially troubled companies by permitting the adjustment of the interests of creditors, shareholders and other interested parties. On April 2, 2001, the Tokyo District Court issued its official recognition order approving the Reorganization Plan. The Reorganization Plan became effective immediately upon the issuance of the recognition order, and is binding upon Gibraltar Life, its creditors, including policyholders, its shareholders and other interested parties, whether or not they submitted claims or voted for or against the plan. The Reorganization Plan included the extinguishment of all existing stock for no consideration and the issuance of 1.0 million new shares of common stock. Also under the Reorganization Plan, Gibraltar Life was discharged from all financial indebtedness, retaining only liabilities under insurance policies and contracts, certain pension liabilities, liabilities incurred in the ordinary course of business and certain other claims. Gibraltar Life's in force insurance policies, except for group life, collective term and reinsurance policies, were restructured such that guaranteed interest rates and cash surrender values were reduced and special surrender charges imposed. Pursuant to the Reorganization Plan, on April 19, 2001 the Company contributed ¥50 billion ($395 million based on currency exchange rates at that time) in cash to Gibraltar Life's capital and on April 20, 2001 received 100% of Gibraltar Life's newly issued common stock. The Company also provided ¥98 billion ($775 million based on currency exchange rates at that time) to Gibraltar Life in the form of a subordinated loan.

In years four and eight following the recognition of the Reorganization Plan by the Tokyo District Court, a special dividend to certain Gibraltar Life policyholders will be payable based on 70% of net realized investment gains, if any, over the value included in the Reorganization Plan of real estate and loans, net of transaction costs and taxes. As of December 31, 2002, a liability of $726 million is included in "Policyholders' dividends" which is based on the difference between the current estimated fair values of loans and real estate at the date of the Consolidated Statements of Financial Position and the value of such assets included in the Reorganization Plan.

For purposes of inclusion in the Company's Consolidated Financial Statements, Gibraltar Life has adopted a November 30 fiscal year end; therefore, the consolidated financial statements include Gibraltar Life's assets and liabilities as of November 30, 2002 and 2001, and Gibraltar Life's results of operations for the periods April 2, 2001 through November 30, 2001 and December 1, 2001 through November 30, 2002. The Company's Consolidated Financial Statements include income from continuing operations before income taxes for Gibraltar Life of $200 million and $238 million for the years ended December 31, 2002 and 2001, respectively.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

6. INVESTMENTS

Fixed Maturities and Equity Securities

The following tables provide additional information relating to fixed maturities and equity securities (excluding trading account assets) at December 31,

	2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in millions)			
Fixed maturities available for sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 8,323	$ 670	$ 7	$ 8,986
Obligations of U.S. states and their political subdivisions	1,962	213	1	2,174
Foreign government bonds	21,158	1,317	3	22,472
Corporate securities	78,845	5,729	609	83,965
Mortgage-backed securities	7,581	288	3	7,866
Total fixed maturities available for sale	$ 117,869	$ 8,217	$ 623	$ 125,463
Equity securities available for sale	$ 2,849	$ 188	$ 230	$ 2,807

	2002			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in millions)			
Fixed maturities held to maturity				
Obligations of U.S. states and their political subdivisions	$ 3	$ —	$ —	$ 3
Foreign government bonds	103	3	—	106
Corporate securities	274	7	4	277
Mortgage-backed securities	2,232	58	3	2,287
Total fixed maturities held to maturity	$ 2,612	$ 68	$ 7	$ 2,673

	2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in millions)			
Fixed maturities available for sale				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 7,900	$ 195	$ 35	$ 8,060
Obligations of U.S. states and their political subdivisions	1,936	65	14	1,987
Foreign government bonds	17,322	330	62	17,590
Corporate securities	75,072	2,810	957	76,925
Mortgage-backed securities	5,234	166	20	5,380
Total fixed maturities available for sale	$ 107,464	$ 3,566	$ 1,088	$ 109,942
Equity securities available for sale	$ 2,252	$ 230	$ 210	$ 2,272

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

6. INVESTMENTS *(continued)*

	2001			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(in millions)			
Fixed maturities held to maturity				
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 2	$ —	$ —	$ 2
Obligations of U.S. states and their political subdivisions	1	—	—	1
Foreign government bonds	106	8	—	114
Corporate securities	265	15	2	278
Total fixed maturities held to maturity	$ 374	$ 23	$ 2	$ 395

The amortized cost and estimated fair value of fixed maturities by contractual maturities at December 31, 2002, is as follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(in millions)		(in millions)	
Due in one year or less	$ 5,663	$ 5,742	$ 24	$ 24
Due after one year through five years	32,930	34,230	122	129
Due after five years through ten years	35,692	37,972	54	55
Due after ten years	36,003	39,653	180	178
Mortgage-backed securities	7,581	7,866	2,232	2,287
Total	$ 117,869	$ 125,463	$ 2,612	$ 2,673

Actual maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

Proceeds from the repayment of held to maturity fixed maturities during 2002, 2001 and 2000 were $418 million, $139 million and $3,266 million, respectively. Gross gains of $0 million, $0 million and $8 million were realized on prepayment of held to maturity fixed maturities during 2002, 2001 and 2000, respectively.

Proceeds from the sale of available for sale fixed maturities during 2002, 2001 and 2000 were $47,341 million, $84,629 million and $93,653 million, respectively. Proceeds from the maturity of available for sale fixed maturities during 2002, 2001 and 2000 were $13,188 million, $13,521 million and $6,318 million, respectively. Gross gains of $1,276 million, $1,270 million and $909 million, and gross losses of $1,301 million, $1,136 million and $1,408 million were realized on sales and prepayments of available for sale fixed maturities during 2002, 2001 and 2000, respectively.

Write-downs for impairments for fixed maturities were $687 million, $777 million and $540 million, and for equity securities were $309 million, $238 million and $34 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Due to the adoption of SFAS No. 133, “Accounting for Derivative Instruments and Hedging Activities,” on January 1, 2001, the aggregate amortized cost of “held to maturity” securities transferred to the “available for sale” portfolio was $11,937 million. Unrealized investment gains of $94 million, net of tax, were recorded in “Accumulated other comprehensive income (loss)” at the time of the transfer in 2001.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

6. INVESTMENTS *(continued)*

Commercial Loans

The Company's commercial loans are as follows at December 31,

	2002		2001	
	Amount (in millions)	% of Total	Amount (in millions)	% of Total
Collateralized loans by property type				
Office buildings	$ 3,333	18.9%	$ 3,553	20.7%
Retail stores	1,993	11.3%	2,058	12.0%
Residential properties	2,137	12.1%	2,184	12.7%
Apartment complexes	4,414	25.0%	4,209	24.5%
Industrial buildings	3,099	17.6%	2,685	15.7%
Agricultural properties	1,863	10.6%	1,908	11.1%
Other	800	4.5%	569	3.3%
Subtotal of collateralized loans	17,639	100.0%	17,166	100.0%
Valuation allowance	(198)		(220)	
Total collateralized loans	17,441		16,946	
Uncollateralized loans				
Gibraltar Life uncollateralized loans	2,130		3,098	
Valuation allowance	(284)		(315)	
Total uncollateralized loans	1,846		2,783	
Net carrying value	$ 19,287		$ 19,729	

The commercial loans are geographically dispersed throughout the United States, Canada and Asia with the largest concentrations in California (21.7%) and Asia (16.0%) at December 31, 2002.

Activity in the allowance for losses for all commercial loans, for the years ended December 31, is summarized as follows:

	2002	2001	2000
		(in millions)	
Allowance for losses, beginning of year	$ 535	$ 225	$ 221
Allowance on loans acquired from Gibraltar Life	—	739	—
Addition (release) of allowance for losses	(42)	(24)	17
Charge-offs, net of recoveries	(29)	(412)	(13)
Change in foreign exchange	18	7	—
Allowance for losses, end of year	$ 482	$ 535	$ 225

Non-performing commercial loans identified in management's specific review of probable loan losses and the related allowance for losses at December 31, are as follows:

	2002	2001
	(in millions)	
Non-performing commercial loans with allowance for losses	$ 349	$ 463
Non-performing commercial loans with no allowance for losses	182	243
Allowance for losses, end of year	(271)	(333)
Net carrying value of non-performing commercial loans	$ 260	$ 373

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

6. INVESTMENTS *(continued)*

Non-performing commercial loans with no allowance for losses are loans in which the fair value of the collateral or the net present value of the loans' expected future cash flows equals or exceeds the recorded investment. The average recorded investment in non-performing loans before allowance for losses was $601 million, $1,309 million and $565 million for 2002, 2001 and 2000, respectively. Net investment income recognized on these loans totaled $26 million, $35 million and $37 million for the years ended December 31, 2002, 2001 and 2000, respectively.

Other Long-term Investments

The Company's "Other long-term investments" includes investments in joint ventures and limited partnerships of $1,730 million and $1,710 million at December 31, 2002 and 2001, respectively. These investments include $685 million and $717 million in real estate related interests and $1,045 million and $993 million in non-real estate related interests at December 31, 2002 and 2001, respectively.

Summarized combined financial information for joint ventures and limited partnership interests accounted for under the equity method, in which the Company has an investment of $10 million or greater and an equity interest of 10% or greater, is as follows:

	At December 31,	
	2002	2001
	(in millions)	
STATEMENTS OF FINANCIAL POSITION		
Investments in real estate	$ 2,179	$ 3,603
Investments in securities	2,958	1,694
Cash and cash equivalents	132	87
Other assets	76	208
Total assets	$ 5,345	$ 5,592
Borrowed funds—third party	$ 645	$ 598
Borrowed funds—Prudential Financial	—	3
Other liabilities	561	1,399
Total liabilities	1,206	2,000
Partners' capital	4,139	3,592
Total liabilities and partners' capital	$ 5,345	$ 5,592
Equity in partners' capital included above	$ 1,273	$ 971
Equity in limited partnership interests not included above	457	739
Carrying value	$ 1,730	$ 1,710

	Years ended December 31,		
	2002	2001	2000
		(in millions)	
STATEMENTS OF OPERATIONS			
Income of real estate joint ventures	$ 140	$ 246	$ 257
Income of other limited partnership interests	140	142	256
Interest expense—third party	(63)	(31)	(31)
Other expenses	(159)	(251)	(226)
Net earnings	$ 58	$ 106	$ 256
Equity in net earnings included above	$ 12	$ 37	$ 79
Equity in net earnings of limited partnership interests not included above	16	48	100
Total equity in net earnings	$ 28	$ 85	$ 179

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

6. INVESTMENTS *(continued)*

"Other long-term investments" includes investments in real estate, which is held through direct ownership, of $1,217 million and $1,072 million at December 31, 2002 and 2001, respectively. "Other long-term investments" also includes investments in the Company's separate accounts of $396 million and $975 million, and other miscellaneous investments of $2,065 million and $1,661 million at December 31, 2002 and 2001, respectively.

Net Investment Income

Net investment income for the years ended December 31, was from the following sources:

	2002	2001	2000
		(in millions)	
Fixed maturities available for sale	$ 6,454	$ 6,826	$ 5,938
Fixed maturities held to maturity	80	12	1,028
Trading account assets	135	294	734
Equity securities available for sale	73	45	67
Commercial loans	1,438	1,432	1,370
Policy loans	529	522	478
Securities purchased under agreements to resell	8	11	28
Broker-dealer related receivables	258	495	1,199
Short-term investments and cash equivalents	314	465	683
Other investment income	284	424	484
Gross investment income	9,573	10,526	12,009
Less investment expenses	(741)	(1,388)	(2,530)
Net investment income	$ 8,832	$ 9,138	$ 9,479

Based on the carrying value, assets categorized as "non-income producing" at December 31, 2002 included in fixed maturities, commercial loans and other long-term investments totaled $19 million, $16 million and $43 million, respectively.

Realized Investment Gains (Losses), Net

Realized investment gains (losses), net, for the years ended December 31, were from the following sources:

	2002	2001	2000
		(in millions)	
Fixed maturities	$ (712)	$ (639)	$ (1,066)
Equity securities available for sale	(335)	(245)	450
Commercial loans	35	1	(5)
Investment real estate	(7)	40	49
Joint ventures and limited partnerships	23	—	124
Derivatives	(400)	160	187
Other	38	12	(5)
Realized investment losses, net	$ (1,358)	$ (671)	$ (266)

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

6. INVESTMENTS *(continued)*

Net Unrealized Investment Gains (Losses)

Net unrealized investment gains and losses on securities available for sale and certain other long-term investments are included in the Consolidated Statements of Financial Position as a component of "Accumulated other comprehensive income (loss)." Changes in these amounts include reclassification adjustments to exclude from "Other comprehensive income (loss)" those items that are included as part of "Net income" for a period that had been part of "Other comprehensive income (loss)" in earlier periods. The amounts for the years ended December 31, are as follows:

	Unrealized Gains (Losses) On Investments	Deferred Policy Acquisition Costs	Future Policy Benefits	Policyholders' Dividends	Deferred Income Tax (Liability) Benefit	Accumulated Other Comprehensive Income (Loss) Related To Net Unrealized Investment Gains (Losses)
				(in millions)		
Balance, December 31, 1999	$ (1,348)	$ 306	$ (3)	$ —	$ 385	$ (660)
Net investment gains (losses) on investments arising during the period	1,458	—	—	—	(540)	918
Reclassification adjustment for (gains) losses included in net income	621	—	—	—	(230)	391
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs	—	(356)	—	—	132	(224)
Impact of net unrealized investment (gains) losses on future policy benefits	—	—	(101)	—	35	(66)
Balance, December 31, 2000	731	(50)	(104)	—	(218)	359
Net investment gains (losses) on investments arising during the period	781	—	—	—	(293)	488
Reclassification adjustment for (gains) losses included in net income	860	—	—	—	(323)	537
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs	—	(270)	—	—	97	(173)
Impact of net unrealized investment (gains) losses on future policy benefits	—	—	27	—	(10)	17
Balance, December 31, 2001	2,372	(320)	(77)	—	(747)	1,228
Net investment gains (losses) on investments arising during the period	4,019	—	—	—	(1,434)	2,585
Reclassification adjustment for (gains) losses included in net income	1,055	—	—	—	(376)	679
Impact of net unrealized investment (gains) losses on deferred policy acquisition costs	—	(216)	—	—	78	(138)
Impact of net unrealized investment (gains) losses on future policy benefits	—	—	(769)	—	276	(493)
Impact of net unrealized investment (gains) losses on policyholders' dividends	—	—	—	(1,606)	579	(1,027)
Balance, December 31, 2002	$ 7,446	$ (536)	$ (846)	$ (1,606)	$ (1,624)	$ 2,834

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

6. INVESTMENTS *(continued)*

The table below presents unrealized gains (losses) on investments by asset class at December 31,

	2002	2001	2000
		(in millions)	
Fixed maturities	$ 7,594	$ 2,478	$ 712
Equity securities	(42)	20	51
Other long-term investments	(106)	(126)	(32)
Unrealized gains on investments	$ 7,446	$ 2,372	$ 731

Securities Pledged, Restricted Assets and Special Deposits

The Company pledges investment securities it owns to unaffiliated parties through certain transactions, including securities lending, securities sold under agreement to repurchase and futures contracts. At December 31, the carrying value of investments pledged to third parties as reported in the Consolidated Statements of Financial Position included the following:

	2002	2001
	(in millions)	
Fixed maturities available for sale	$ 15,600	$ 10,865
Trading account assets	1,799	2,985
Separate account assets	2,496	2,659
Total securities pledged	$ 19,895	$ 16,509

In the normal course of its business activities, the Company accepts collateral that can be sold or repledged. The primary sources of this collateral are securities in customer accounts, securities purchased under agreements to resell and securities borrowed transactions. The fair value of this collateral was approximately $13,488 million and $14,801 million at December 31, 2002 and 2001, respectively, of which $9,288 million in 2002 and $10,571 million in 2001 had either been sold or repledged.

Assets of $399 million and $400 million at December 31, 2002 and 2001, respectively, were on deposit with governmental authorities or trustees as required by certain insurance laws. Additionally, assets valued at $789 million and $960 million at December 31, 2002 and 2001, respectively, were held in voluntary trusts. Of these amounts, $192 million and $244 million at December 31, 2002 and 2001, respectively, related to sales practices matters described in Note 22. The remainder relates to trusts established to fund guaranteed dividends to certain policyholders and to fund certain employee benefits. Assets valued at $424 million and $158 million at December 31, 2002 and 2001, respectively, were pledged as collateral for bank loans and other financing agreements. Letter stock or other securities restricted as to sale amounted to $25 million and $183 million at December 31, 2002 and 2001, respectively. Restricted cash and securities of $1,869 million and $1,930 million at December 31, 2002 and 2001, respectively, were included in “Other assets.” The restricted cash represents funds deposited by clients and funds accruing to clients as a result of trades or contracts.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

7. DEFERRED POLICY ACQUISITION COSTS

The balances of and changes in deferred policy acquisition costs as of and for the years ended December 31, are as follows:

	2002	2001	2000
		(in millions)	
Balance, beginning of year	$ 6,868	$ 7,063	$ 7,324
Capitalization of commissions, sales and issue expenses	1,478	1,385	1,324
Amortization	(1,267)	(1,126)	(1,096)
Change in unrealized investment gains and losses	(216)	(270)	(356)
Foreign currency translation	168	(184)	(154)
Acquisition of subsidiary	—	—	21
Balance, end of year	$ 7,031	$ 6,868	$ 7,063

8. GOODWILL AND OTHER INTANGIBLES

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," as of January 1, 2002. The Company ceased the amortization of goodwill as of that date and determined that the implementation of the transition provisions of this statement did not result in an impairment loss as of the adoption date of the standard. Net income (loss) would have been approximately $(133) million and $411 million for the years ended December 31, 2001 and 2000, respectively, had the provisions of the new standard been applied as of January 1, 2000. Goodwill amortization amounted to $21 million and $13 million for the years ended December 31, 2001 and 2000, respectively. The changes in the book value of goodwill by segment for the year ended December 31, 2002 are as follows:

	Balance at January 1, 2002	Acquisitions	Impairment Charge	Disposal of Reporting Unit	Balance at December 31, 2002
			(in millions)		
Individual Life and Annuities	$ 5	$ —	$ —	$ —	$ 5
Property and Casualty Insurance	33	—	(33)	—	—
Investment Management	50	85	—	—	135
Other Asset Management	4	—	—	(4)	—
International Investments	119	45	(3)	—	161
Corporate and Other	114	2	—	—	116
Total	$ 325	$ 132	$ (36)	$ (4)	$ 417

The Company tests goodwill for impairment on an annual basis as of December 31 of each year. Subsequent to the impairment test performed at the time of adoption of SFAS No. 142, the Company's first annual impairment test for goodwill was as of December 31, 2002. The Company tests goodwill for impairment between the annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. As a result of the December 31, 2002 annual impairment test, the Company determined that the goodwill related to its Property and Casualty Insurance segment was impaired. Accordingly, the Company recorded an impairment charge of $33 million representing the entire carrying amount of the segment's goodwill. The Property and Casualty Insurance segment has been determined to be a reporting unit for goodwill impairment testing. The fair value of the segment was determined based on independent third party assessments. In addition, an impairment charge of $3 million was recorded in the International Investments segment, which represented the goodwill balance associated with the discontinued international securities operations of Prudential Securities Group Inc. in Europe.

The Company's intangible assets other than goodwill ("other intangibles") are subject to amortization. At December 31, 2002, the gross carrying amount and accumulated amortization for the Company's other

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

8. GOODWILL AND OTHER INTANGIBLES *(continued)*

intangibles amounted to $319 million and $99 million, respectively, and at December 31, 2001, $233 million and $71 million, respectively. Other intangibles consist primarily of mortgage servicing rights and customer relationships related to the Investment Management segment. At December 31, 2002 and 2001, mortgage servicing rights, including both purchased and originated servicing rights, were $124 million and $126 million, respectively, and customer relationships were $77 million and $21 million, respectively. Amortization expense for other intangibles was $25 million and $22 million for the years ended December 31, 2002 and 2001, respectively. Amortization expense for other intangibles currently owned by the Company is expected to be approximately $30 million for each of the next five years.

9. POLICYHOLDERS' LIABILITIES

Future Policy Benefits

Future policy benefits at December 31, are as follows:

	2002	2001
	(in millions)	
Life insurance	$ 74,438	$ 71,582
Annuities	15,052	14,500
Other contract liabilities	970	909
Total future policy benefits	$ 90,460	$ 86,991

The Company's individual participating insurance is included within the Closed Block Business. Participating insurance represented 34% and 37% of domestic individual life insurance in force at December 31, 2002 and 2001, respectively, and 91%, 92% and 94% of domestic individual life insurance premiums for 2002, 2001 and 2000, respectively.

Life insurance liabilities include reserves for death and endowment policy benefits, terminal dividends and certain health benefits. Annuity liabilities include reserves for life contingent immediate annuities and life contingent group annuities. Other contract liabilities primarily consist of unearned premium and benefit reserves for group health products and property and casualty insurance.

Future policy benefits for individual participating traditional life insurance are based on the net level premium method, calculated using the guaranteed mortality and nonforfeiture interest rates which range from 2.5% to 9%; less than 1% of the reserves are based on an interest rate in excess of 8%.

Future policy benefits for individual non-participating traditional life insurance policies, group and individual long-term care policies and individual health insurance policies are equal to the aggregate of (1) the present value of future benefit payments and related expenses, less the present value of future net premiums, and (2) premium deficiency reserves. Assumptions as to mortality, morbidity and persistency are based on the Company's experience when the basis of the reserve is established. Interest rates used for the aggregate reserves range from 1.7% to 11.3%; less than 1% of the reserves are based on an interest rate in excess of 8%.

Future policy benefits for individual and group annuities are equal to the aggregate of (1) the present value of expected future payments on the basis of actuarial assumptions established at issue, and (2) premium deficiency reserves. Assumptions as to mortality are based on the Company's experience when the basis of the reserve is established. The interest rates used in the determination of the aggregate reserves range from 1.7% to 14.8%; less than 3% of the reserves are based on an interest rate in excess of 8%.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

9. POLICYHOLDERS' LIABILITIES *(continued)*

Future policy benefits for other contract liabilities are generally equal to the present value of expected future payments based on the Company's experience (except for certain group insurance coverages for which future policy benefits are equal to gross unearned premium reserves). The interest rates used in the determination of the aggregate reserves range from 2.5% to 9.8%; less than 3% of the reserves are based on an interest rate in excess of 8%.

Premium deficiency reserves are established, if necessary, when the liability for future policy benefits plus the present value of expected future gross premiums are determined to be insufficient to provide for expected future policy benefits and expenses and to recover any unamortized policy acquisition costs. Premium deficiency reserves have been recorded for the group single premium annuity business, which consists of limited-payment, long duration traditional and non-participating annuities; structured settlements and single premium immediate annuities with life contingencies; and for certain individual health policies. Liabilities of $2,457 million and $1,867 million are included in "Future policy benefits" with respect to these deficiencies at December 31, 2002 and 2001, respectively. The increase is largely attributable to unrealized investment gains and, consequently, is largely offset within "Accumulated other comprehensive income (loss)."

Policyholders' Account Balances

Policyholders' account balances at December 31, are as follows:

	2002	2001
	(in millions)	
Individual annuities	$ 8,497	$ 7,564
Group annuities	3,911	4,035
Guaranteed investment contracts and guaranteed interest accounts	13,982	13,031
Interest-sensitive life contracts	7,584	8,112
Dividend accumulations and other	12,306	10,591
Policyholders' account balances	$ 46,280	$ 43,333

Policyholders' account balances for interest-sensitive life and investment-type contracts represent an accumulation of account deposits plus credited interest less withdrawals, expenses and mortality charges. Interest crediting rates range from 0.5% to 8% for interest-sensitive life contracts and from 0.5% to 16% for investment-type contracts. Less than 4% of policyholders' account balances have interest crediting rates in excess of 8%.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

9. POLICYHOLDERS' LIABILITIES *(continued)*

Unpaid Claims and Claim Adjustment Expenses

The following table provides a reconciliation of the activity in the liability for unpaid claims and claim adjustment expenses for property and casualty insurance, which includes the Company's Property and Casualty Insurance segment, and accident and health insurance at December 31:

	2002		2001		2000	
	Accident and Health	Property and Casualty	Accident and Health	Property and Casualty	Accident and Health	Property and Casualty
			(in millions)			
Balance at January 1	$ 1,655	$ 1,753	$ 1,701	$ 1,848	$ 1,735	$ 2,409
Less reinsurance recoverables, net	129	671	246	608	378	451
Net balance at January 1	1,526	1,082	1,455	1,240	1,357	1,958
Incurred related to:						
Current year	627	1,615	632	1,440	537	1,271
Prior years	(32)	(15)	(45)	(113)	(22)	(150)
Total incurred	595	1,600	587	1,327	515	1,121
Paid related to:						
Current year	237	967	219	932	152	842
Prior years	341	452	312	553	265	634
Total paid	578	1,419	531	1,485	417	1,476
Acquisitions (dispositions) (a)	—	—	15	—	—	(363)
Net balance at December 31	1,543	1,263	1,526	1,082	1,455	1,240
Plus reinsurance recoverables, net	24	598	129	671	246	608
Balance at December 31	$ 1,567	$ 1,861	$ 1,655	$ 1,753	$ 1,701	$ 1,848

(a) The 2001 accident and health increase relates to the acquisition of Gibraltar Life. The reduction in the 2000 property and casualty balance is primarily attributable to the sale of Gibraltar Casualty Company.

The accident and health reinsurance recoverable balance at December 31, 2002, 2001 and 2000 includes $9 million, $117 million and $239 million, respectively, attributable to the Company's discontinued healthcare business.

The unpaid claims and claim adjustment expenses presented above include estimates for liabilities associated with reported claims and for incurred but not reported claims based, in part, on the Company's experience. Changes in the estimated cost to settle unpaid claims are charged or credited to the Consolidated Statements of Operations periodically as the estimates are revised. Accident and health unpaid claims liabilities are discounted using interest rates ranging from 3.5% to 7.5%.

The amounts incurred for claims and claim adjustment expenses for property and casualty related to prior years were primarily driven by lower than anticipated losses for the auto line of business and a release of prior year reserves for group personal catastrophe coverage. The amounts incurred for claims and claim adjustment expenses for accident and health related to prior years were primarily due to long-term disability claim termination experience.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

10. 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 21. 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.

Effective with demutualization, the Company adopted the American Institute of Certified Public Accountants Statement of Position ("SOP") 00-3, "Accounting by Insurance Enterprises for Demutualizations and Formations of Mutual Insurance Holding Companies and For Certain Long-Duration Participating Contracts." SOP 00-3 addresses financial statement presentation and accounting for certain participating policies after demutualization included in the Closed Block, accounting for demutualization expenses, and accounting for retained earnings and other comprehensive income at the date of demutualization.

The policies included in the Closed Block are specified individual life insurance policies and individual annuity contracts that were in force on the effective date of the Plan of Reorganization and for which Prudential Insurance is currently paying or expects to pay experience-based policy dividends. Assets have been allocated to the Closed Block in an amount that has been determined to produce cash flows which, together with revenues from policies included in the Closed Block, are expected to be sufficient to support obligations and liabilities relating to these policies, including provision for payment of benefits, certain expenses, and taxes and to provide for continuation of the policyholder dividend scales in effect in 2000, assuming experience underlying such scales continues. To the extent that, over time, cash flows from the assets allocated to the Closed Block and claims and other experience related to the Closed Block are, in the aggregate, more or less favorable than what was assumed when the Closed Block was established, total dividends paid to Closed Block policyholders in the future may be greater than or less than the total dividends that would have been paid to these policyholders if the policyholder dividend scales in effect in 2000 had been continued. Any cash flows in excess of amounts assumed will be available for distribution over time to Closed Block policyholders and will not be available to stockholders. If the Closed Block has insufficient funds to make guaranteed policy benefit payments, such payments will be made from assets outside of the Closed Block. The Closed Block will continue in effect as long as any policy in the Closed Block remains in force unless, with the consent of the New Jersey insurance regulator, it is terminated earlier.

The 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)") 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 SOP 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, which are recorded as a policyholder dividend obligation. The policyholder dividend obligation represents amounts to be paid to Closed Block policyholders as an additional policyholder dividend unless otherwise offset by future Closed Block performance that is less favorable than originally expected. If the actual

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

10. CLOSED BLOCK *(continued)*

cumulative earnings of the Closed Block from its inception through the end of any given period are less than the expected cumulative earnings of the Closed Block, the Company will recognize only the actual earnings in income. However, the Company may reduce policyholder dividend scales in the future, which would be intended to increase future actual earnings until the actual cumulative earnings equaled the expected cumulative earnings. As of December 31, 2002, the Company has not recognized a policyholder dividend obligation for the excess of actual cumulative earnings over the expected cumulative earnings. However, net unrealized investment gains that have arisen subsequent to the establishment of the Closed Block have been reflected as a policyholder dividend obligation of $1,606 million at December 31, 2002, to be paid to Closed Block policyholders unless otherwise offset by future experience, with an offsetting amount reported in "Accumulated other comprehensive income (loss)."

On December 11, 2002 and November 13, 2001, Prudential Insurance's Board of Directors acted to reduce dividends, effective January 1, 2003 and 2002, respectively, on Closed Block policies to reflect unfavorable investment experience that had emerged since July 1, 2000, the date the Closed Block was originally funded. These actions resulted in a $56 million and $104 million reduction of the liability for policyholder dividends recognized in the years ended December 31, 2002 and 2001, respectively.

Closed Block Liabilities and Assets designated to the Closed Block at December 31, as well as maximum future earnings to be recognized from Closed Block Liabilities and Closed Block Assets, are as follows:

	2002	2001
	(in millions)	
Closed Block Liabilities		
Future policy benefits	$ 48,247	$ 47,239
Policyholders' dividends payable	1,151	1,171
Policyholder dividend obligation	1,606	—
Policyholders' account balances	5,481	5,394
Other Closed Block liabilities	9,760	4,603
Total Closed Block Liabilities	66,245	58,407
Closed Block Assets		
Fixed maturities:		
Available for sale, at fair value	42,402	37,933
Equity securities, available for sale, at fair value	1,521	584
Commercial loans	6,457	5,572
Policy loans	5,681	5,758
Other long-term investments	1,008	1,018
Short-term investments	2,374	1,627
Total investments	59,443	52,492
Cash and cash equivalents	2,526	1,810
Accrued investment income	715	716
Other Closed Block assets	528	635
Total Closed Block Assets	63,212	55,653
Excess of reported Closed Block Liabilities over Closed Block Assets	3,033	2,754
Portion of above representing accumulated other comprehensive income:		
Net unrealized investment gains	2,720	780
Allocated to policyholder dividend obligation	(1,606)	—
Future earnings to be recognized from Closed Block Assets and Closed Block Liabilities	$ 4,147	$ 3,534

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

10. CLOSED BLOCK *(continued)*

Information regarding the policyholder dividend obligation is as follows:

	2002
	(in millions)
Balance, January 1, 2002	$ —
Impact on income before gains allocable to policyholder dividend obligation	—
Net investment gains	—
Unrealized investment gains	1,606
Balance, December 31, 2002	$ 1,606

Closed Block revenues and benefits and expenses for the year ended December 31, 2002 and the period from the date of demutualization through December 31, 2001 were as follows:

	2002	December 18, 2001 through December 31, 2001
		(in millions)
Revenues		
Premiums	$ 4,022	$ 293
Net investment income	3,333	129
Realized investment gains (losses), net	(521)	24
Other income	68	3
Total Closed Block revenues	6,902	449
Benefits and Expenses		
Policyholders' benefits	4,310	288
Interest credited to policyholders' account balances	139	5
Dividends to policyholders	2,506	100
General and administrative expenses	801	33
Total Closed Block benefits and expenses	7,756	426
Closed Block revenues, net of Closed Block benefits and expenses, before income taxes	(854)	23
Income tax expense (benefit)	(147)	2
Closed Block revenues, net of Closed Block benefits and expenses and income taxes	$ (707)	$ 21

11. REINSURANCE

The Company participates in reinsurance in order to provide additional capacity for future growth and limit the maximum net loss potential arising from large risks. Life reinsurance is accomplished through various plans of reinsurance, primarily yearly renewable term and coinsurance. Property and casualty reinsurance is placed on a pro-rata basis and excess of loss, including stop-loss, basis. Reinsurance ceded arrangements do not discharge the Company as the primary insurer. Ceded balances would represent a liability of the Company in the event the reinsurers were unable to meet their obligations to the Company under the terms of the reinsurance agreements. Reinsurance premiums, commissions, expense reimbursements, benefits and reserves related to reinsured long-duration contracts are accounted for over the life of the underlying reinsured contracts using assumptions consistent with those used to account for the underlying contracts. The cost of reinsurance related to short-duration contracts is accounted for over the reinsurance contract period. Amounts recoverable from reinsurers, for both short and long-duration reinsurance arrangements, are estimated in a manner consistent with the claim liabilities and policy benefits associated with the reinsured policies.

The tables presented below exclude amounts pertaining to the Company's discontinued healthcare operations. See Note 3 for a discussion of the Company's coinsurance agreement with Aetna.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

11. REINSURANCE *(continued)*

Reinsurance amounts included in the Consolidated Statements of Operations for the years ended December 31, were as follows:

	2002	2001	2000
		(in millions)	
Direct premiums	$ 14,206	$ 13,066	$ 10,686
Reinsurance assumed	114	95	86
Reinsurance ceded	(789)	(684)	(591)
Premiums	$ 13,531	$ 12,477	$ 10,181
Policyholders' benefits ceded	$ 821	$ 845	$ 642

Reinsurance recoverables, included in "Other assets" at December 31, are as follows:

	2002	2001
	(in millions)	
Life insurance	$ 734	$ 795
Property and casualty	613	694
Other reinsurance	71	82
Total reinsurance recoverable	$ 1,418	$ 1,571

Three major reinsurance companies account for approximately 50% of the reinsurance recoverable at December 31, 2002. The Company periodically reviews the financial condition of its reinsurers and amounts recoverable therefrom in order to minimize its exposure to loss from reinsurer insolvencies, recording an allowance when necessary for uncollectible reinsurance.

12. SHORT-TERM AND LONG-TERM DEBT

Short-term Debt

Short-term debt at December 31, is as follows:

	2002	2001
	(in millions)	
Commercial paper	$ 1,265	$ 3,182
Notes payable	1,566	1,469
Current portion of long-term debt	638	754
Total short-term debt	$ 3,469	$ 5,405

The weighted average interest rate on outstanding short-term debt, excluding the current portion of long-term debt, was approximately 1.6% and 3.9% at December 31, 2002 and 2001, respectively. The current portion of long-term debt at December 31, 2002 includes $300 million of surplus notes due in 2003.

At December 31, 2002, the Company had $3,284 million in committed lines of credit from numerous financial institutions, of which $195 million were used. These lines of credit generally have terms ranging from one to twenty-five years.

The Company issues commercial paper primarily to manage operating cash flows and existing commitments, meet working capital needs and take advantage of current investment opportunities. At December 31, 2002 and 2001, a portion of commercial paper borrowings were supported by $2,500 million and $4,000 million of the Company's existing lines of credit, respectively. At December 31, 2002 and 2001, the weighted average maturity of commercial paper outstanding was 19 and 21 days, respectively.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

12. SHORT-TERM AND LONG-TERM DEBT *(continued)*

Long-term Debt

Long-term debt at December 31, is as follows:

Description	Maturity Dates	Rate	2002	2001
			(in millions)	
Prudential Holdings, LLC notes (the "IHC debt")				
Series A	2017(a)	(b)	$ 333	$ 333
Series B	2023(a)	7.245%	777	777
Series C	2023(a)	8.695%	640	640
Fixed rate notes				
U.S. Dollar	2003-2035	5.97%-15.00%	1,131	1,147
Japanese Yen	2010	(c)	384	348
Floating rate notes ("FRNs")				
U.S. Dollar	2003-2035	(d)	785	975
Canadian Dollar	2003	(e)	—	80
Japanese Yen	2005-2010	(f)	17	15
Surplus notes	2003-2025	(g)	690	989
Total long-term debt			$ 4,757	$ 5,304

(a) Annual scheduled repayments of principal for the Series A and Series C notes begin in 2013. Annual scheduled repayments of principal for the Series B notes begin in 2018.
(b) The interest rate on the Series A notes is a floating rate equal to LIBOR plus 0.875% per year. The interest rate ranged from 2.29% to 2.87% in 2002 and was 2.74% in 2001.
(c) The interest rate on the Japanese Yen denominated fixed rate note is 2.2% through 2008 at which time it becomes a floating rate note.
(d) The interest rates on the U.S. dollar denominated FRNs are generally based on rates such as LIBOR, Constant Maturity Treasury and the Federal Funds Rate. Interest rates on the U.S. dollar denominated FRNs ranged from 1.72% to 4.58% in 2002 and 2.07% to 9.42% in 2001.
(e) The interest rate on the Canadian Dollar denominated FRN is based on the Canadian Bankers Acceptances Rate (CADBA) less 0.30%. This note has a contractual floor of 6.00% with a contractual cap of 9.125%. The interest rate ranged from 6.00% to 6.84% in 2001.
(f) The interest rates on the Japanese Yen denominated FRNs are based on the Yen LIBOR plus 1.20%. The interest rates ranged from 1.27% to 1.33% in 2002 and was 1.32% in 2001.
(g) The interest rate on the Surplus notes ranged from 7.65% to 8.30% in 2002 and 6.875% to 8.30% in 2001.

Several long-term debt agreements have restrictive covenants related to the total amount of debt, net tangible assets and other matters. At December 31, 2002 and 2001, the Company was in compliance with all debt covenants.

Payment of interest and principal on the surplus notes issued after 1993, of which $690 million was outstanding at December 31, 2002 and 2001, may be made only with the prior approval of the Commissioner of Banking and Insurance of the State of New Jersey ("the Commissioner"). The Commissioner could prohibit the payment of the interest and principal on the surplus notes if certain statutory capital requirements are not met. At December 31, 2002, the Company has met these statutory capital requirements.

In order to modify exposure to interest rate and currency exchange rate movements, the Company utilizes derivative instruments, primarily interest rate swaps, in conjunction with some of its debt issues. These instruments qualify for hedge accounting treatment. The impact of these instruments, which is not reflected in the rates presented in the table above, was a decrease of $15 million in interest expense for the year ended December 31, 2002. Floating rates are determined by contractual formulas and may be subject to certain minimum or maximum rates. See Note 20 for additional information on the Company's use of derivative instruments.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

12. SHORT-TERM AND LONG-TERM DEBT *(continued)*

Interest expense for short-term and long-term debt was $427 million, $647 million and $1,056 million, for the years ended December 31, 2002, 2001 and 2000, respectively. Securities business related interest expense of $144 million, $287 million and $456 million for the years ended December 31, 2002, 2001 and 2000, respectively, is included in "Net investment income."

Prudential Holdings, LLC Notes

On the date of demutualization, Prudential Holdings, LLC ("PHLLC"), a wholly owned subsidiary of Prudential Financial, issued $1.75 billion in senior secured notes (the "IHC debt"). PHLLC owns the capital stock of Prudential Insurance and does not have any operating businesses of its own. The IHC debt represents senior secured obligations of PHLLC with limited recourse; neither Prudential Financial, Prudential Insurance nor any other affiliate of PHLLC is an obligor or guarantor on the IHC debt. The IHC debt is collateralized by 13.8% of the outstanding common stock of Prudential Insurance and other items specified in the indenture, primarily the "debt coverage service account" discussed below.

PHLLC's ability to meet its obligations under the IHC debt is dependent principally upon sufficient available funds being generated by the Closed Block Business and the ability of Prudential Insurance, the sole direct subsidiary of PHLLC, to dividend such funds to PHLLC. The payment of scheduled principal and interest on the Series A notes and the Series B notes is insured by a financial guarantee insurance policy. The payment of principal and interest on the Series C notes is not insured. The IHC debt is redeemable prior to its stated maturity at the option of PHLLC and, in the event of certain circumstances, the IHC debt bond insurer can require PHLLC to redeem the IHC debt.

Net proceeds from the IHC debt amounted to $1,727 million. The majority of the net proceeds, or $1,218 million, was distributed to Prudential Financial through a dividend on the date of demutualization for use in the Financial Services Businesses. Net proceeds of $437 million were deposited to a restricted account within PHLLC. This restricted account, referred to as the "debt service coverage account," constitutes additional collateral for the IHC debt and is maintained in the Financial Services Businesses. The remainder of the net proceeds, or $72 million, was used to purchase a guaranteed investment contract to fund a portion of the financial guarantee insurance premium related to the IHC debt.

Summarized consolidated financial data for Prudential Holdings, LLC is presented below. Amounts for 2001 include results of operations and cash flows of Prudential Insurance prior to the date of demutualization.

	2002	2001
	(in millions)	
Consolidated Statements of Financial Position data at December 31:		
Total assets	$ 223,703	$ 220,585
Total liabilities	208,394	205,994
Total equity	15,309	14,591
Total liabilities and equity	223,703	220,585
Consolidated Statements of Operations data for the years ended December 31:		
Total revenues	$ 15,893	$ 27,173
Total benefits and expenses	16,037	27,380
Loss from continuing operations	(101)	(154)
Net loss	(93)	(151)
Consolidated Statements of Cash Flows data for the years ended December 31:		
Cash flows from operating activities	$ 8,337	$ 5,246
Cash flows from (used in) investing activities	(7,503)	7,395
Cash flows used in financing activities	(1,473)	(13,730)
Net decrease in cash and cash equivalents	(639)	(1,089)

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

12. SHORT-TERM AND LONG-TERM DEBT *(continued)*

Prudential Financial is a holding company and is a legal entity separate and distinct from its subsidiaries. The rights of Prudential Financial to participate in any distribution of assets of any subsidiary, including upon its liquidation or reorganization, are subject to the prior claims of creditors of that subsidiary, except to the extent that Prudential Financial may itself be a creditor of that subsidiary and its claims are recognized. PHLLC and its subsidiaries have entered into covenants and arrangements with third parties in connection with the issuance of the IHC debt which are intended to confirm their separate, "bankruptcy-remote" status, by assuring that the assets of PHLLC and its subsidiaries are not available to creditors of Prudential Financial or its other subsidiaries, except and to the extent that Prudential Financial and its other subsidiaries are, as shareholders or creditors of PHLLC and its subsidiaries, or would be, entitled to those assets.

At December 31, 2002, the Company was in compliance with all IHC debt covenants.

13. EQUITY SECURITY UNITS

On the date of demutualization, Prudential Financial issued 13,800,000 6.75% equity security units (the "Units") to the public at an offering price of $50 per Unit for gross proceeds of $690 million. The Units are traded on the New York Stock Exchange under the symbol "PFA." Each Unit has a stated amount of $50 and initially consists of (1) a contract requiring the holder to purchase (the "purchase contract"), for $50, shares of Common Stock of Prudential Financial on November 15, 2004 (the "settlement date"), and (2) a redeemable capital security of Prudential Financial Capital Trust I (the "Trust"), a statutory business trust created under Delaware law, with a stated liquidation amount of $50. The redeemable capital securities are initially pledged to secure the obligations of the Unit holders to purchase Common Stock under the purchase contracts. The number of shares of Common Stock that will be received upon settlement of the purchase contracts (the "settlement rate") will be based upon the "applicable market value" of the Common Stock. The "applicable market value" means the average of the closing price per share of Common Stock on each of the twenty consecutive trading days ending on the third trading day preceding the settlement date. If the "applicable market value" of the Common Stock is equal to or greater than $34.10, then the settlement rate will be 1.47 shares of Common Stock per purchase contract. If the "applicable market value" of the Common Stock is less than or equal to $27.50, then the settlement rate will be 1.82 shares of Common Stock per purchase contract. If the "applicable market value" of the Common Stock is greater than $27.50 but less than $34.10, the settlement rate will be equal to $50 divided by the "applicable market value" of Common Stock per purchase contract.

At the time of issuance of the Units by Prudential Financial, the Trust also issued 426,805 shares of common securities to Prudential Financial at a price of $50 per common security for gross proceeds of $21 million. The combined proceeds to the Trust from the issuances of the redeemable capital securities and the common securities (collectively, the "Trust securities"), or $711 million, were invested by the Trust in $711 million aggregate principal amount 5.34% debentures of Prudential Financial maturing on November 15, 2006. The interest rate payable on the debentures will be reset to, and at the time of, any reset to the distribution rate on the redeemable capital securities as noted below. Prudential Financial may defer interest payments on the debentures; however, the payments cannot be deferred beyond the maturity date of the debentures of November 15, 2006. Upon repayment of the debentures by Prudential Financial to the Trust on their maturity date, the Trust will use the cash proceeds, after satisfaction of any liabilities to creditors of the Trust, to repay the redeemable capital securities at their aggregate stated liquidation amount plus any accrued and unpaid distributions. The Trust may not redeem the redeemable capital securities at any other time, for any reason or under any other circumstances. The debentures represent the sole assets of the Trust and the redeemable capital securities and common securities represent an undivided beneficial ownership interest in the assets of the Trust. The redeemable capital securities rank equally with the common securities except that, in the event of default by Prudential Financial on the debentures, the redeemable capital securities become senior to the common securities. The debentures are unsecured obligations of Prudential Financial and rank equally in right of payment to all other senior unsecured debt of Prudential Financial. Prudential Financial is dependent on dividends and other distributions from its subsidiaries in order to make the principal and interest payments on the debentures.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

13. EQUITY SECURITY UNITS *(continued)*

Holders of the purchase contracts receive, from Prudential Financial, quarterly contract fee payments at an annual rate of 1.41% of the stated amount of $50 per purchase contract through and including the settlement date. Prudential Financial has the option to defer contract fee payments on the purchase contracts; however, the payments cannot be deferred beyond the settlement date. Holders of the redeemable capital securities receive, from the Trust, quarterly cumulative cash distributions at an annual rate of 5.34% of the stated liquidation amount of $50 per redeemable capital security through and including August 15, 2004. The quarterly distribution rate on the redeemable capital securities may be reset, in conjunction with a planned remarketing of the redeemable capital securities on August 15, 2004, effective for distributions and interest accrued from August 16, 2004 to November 15, 2006. If Prudential Financial defers interest payments on the debentures as noted above, the Trust will also defer distributions on the Trust securities. During any period in which payments are deferred on the purchase contracts or on the debentures and Trust securities, Prudential Financial cannot declare or pay any dividends or distributions on its capital stock, other than the Class B stock, or make certain other payments relating to the capital stock, other than the Class B Stock, and debt of the Company that is equal to or junior to the debentures.

Prudential Financial has irrevocably guaranteed, on a senior and unsecured basis, distributions on and the stated liquidation amount of the redeemable capital securities to the extent of available Trust funds. The guarantee is unsecured and ranks equally in right of payment to all other senior unsecured debt of Prudential Financial. Prudential Financial currently has no outstanding secured or other debt that would rank senior to this guarantee; however, Prudential Financial's guarantee is effectively junior to the debt and other liabilities of its subsidiaries.

The financial statements of the Trust are consolidated within the financial statements of the Company. Accordingly, the investment in the common securities of the Trust by Prudential Financial and the investment in the debentures of Prudential Financial by the Trust are eliminated in consolidation and the redeemable capital securities, to which the entire gross proceeds of $690 million from the issuance of the Units have been allocated, are reported as "Guaranteed beneficial interest in Trust holding solely debentures of Parent." Distributions on the redeemable capital securities are included within "General and administrative expenses." The initial present value of the sum of the contract fee payments on the purchase contracts of $26 million has been recorded as a charge directly to equity with a corresponding credit to liabilities. The contract fee payments are allocated to the liability established and interest expense as the payments are made. Total issuance costs incurred in connection with the offering of the Units, which were paid by Prudential Financial, amounted to $27 million and are included in "Other assets." The issuance costs are being amortized over the life of the redeemable capital securities.

14. STOCKHOLDERS' EQUITY

Preferred Stock

Prudential Financial adopted a shareholder rights plan (the "rights plan") under which each outstanding share of Common Stock is coupled with a shareholder right. The rights plan is not applicable to any Class B Stock. Each right initially entitles the holder to purchase one one-thousandth of a share of a series of Prudential Financial preferred stock upon payment of the exercise price. At the time of the demutualization, the Board of Directors of Prudential Financial determined that the initial exercise price per right is $110, subject to adjustment from time to time as provided in the rights plan. There was no preferred stock outstanding at December 31, 2002 and 2001.

Common Stock and Class B Stock

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. The shares of Common Stock

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

14. STOCKHOLDERS' EQUITY *(continued)*

issued in the offerings were in addition to shares of Common Stock the Company distributed to policyholders as part of the demutualization. On December 21, 2001, Prudential Financial issued an additional 16.5 million shares of Common Stock at an offering price of $27.50 per share as a result of the exercise of the over-allotment option granted to underwriters in the initial public offering. The Common Stock is traded on the New York Stock Exchange under the symbol "PRU." Also on the date of demutualization, Prudential Financial completed the sale, through a private placement, of 2.0 million shares of Class B Stock at a price of $87.50 per share. The Class B Stock is a separate class of common stock which is not publicly traded. The Common Stock reflects the performance of the Financial Services Businesses and the Class B Stock reflects the performance of the Closed Block Business.

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.

Dividends

Prudential Financial's principal sources of funds to meet its obligations, including the payment of shareholder dividends and operating expenses, are dividends and interest from its subsidiaries. The regulated insurance, broker-dealer and various other subsidiaries are subject to regulatory limitations on their payment of dividends and other transfers of funds to Prudential Financial.

New Jersey insurance law provides that dividends or distributions may be declared or paid by Prudential Insurance without prior regulatory approval only from unassigned surplus, as determined pursuant to statutory accounting principles, less unrealized capital gains and certain other adjustments. Unassigned surplus of Prudential Insurance was a deficit of $(420) million at December 31, 2002. In addition, Prudential Insurance must obtain non-disapproval from the New Jersey insurance regulator before paying a dividend if the dividend, together with other dividends or distributions made within the preceding twelve months, would exceed the greater of 10% of Prudential Insurance's surplus as of the preceding December 31 or its net gain from operations for the twelve month period ending on the preceding December 31.

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

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.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

14. STOCKHOLDERS' EQUITY *(continued)*

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 will retain 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.

On November 12, 2002, Prudential Financial declared annual dividends for 2002 of $0.40 per share of Common Stock and $9.625 per share of Class B Stock, each payable on December 18, 2002 to shareholders of record as of November 25, 2002. Total dividends payable under these declarations amounted to $226 million and $19 million for the Common Stock and Class B Stock, respectively, of which $173 million and $19 million, respectively, were paid as of December 31, 2002.

Stock Conversion Rights of the Class B Stock

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

Holders of Class B Stock will be permitted to convert their shares of Class B Stock into such number of shares of Common Stock as have an aggregate average market value equal to 100% of the appraised fair market value of the outstanding shares of Class B Stock (1) in the holder's sole discretion, beginning in the year 2016, and (2) at any time in the event that (a) the Class B Stock will no longer be treated as equity of Prudential Financial for federal income tax purposes or (b) the New Jersey Department of Banking and Insurance amends, alters, changes or modifies the regulation of the Closed Block, the Closed Block Business, the Class B Stock or the IHC debt in a manner that materially adversely affects the CB Distributable Cash Flow; provided, however, that in no event may a holder of Class B Stock convert shares of Class B Stock to the extent such holder immediately upon such conversion, together with its affiliates, would be the beneficial owner (as defined under the Securities Exchange Act of 1934) of in excess of 9.9% of the total outstanding voting power of Prudential Financial's voting securities. In the event a holder of shares of Class B Stock requests to convert shares pursuant to clause (2)(a) in the preceding sentence, Prudential Financial may elect, instead of effecting such conversion, to increase the Target Dividend Amount to $12.6875 per share per annum retroactively from the time of issuance of the Class B Stock.

Treasury Stock

In January 2002, Prudential Financial's Board of Directors authorized a program to repurchase up to $1 billion of Prudential Financial's outstanding Common Stock. During 2002, the Company acquired 26,027,069 shares of Common Stock at a total cost of $800 million, including 1,696,929 shares at a cost of $56 million that were immediately reissued to the Prudential Securities Incorporated ("Prudential Securities") deferred compensation program referred to in Note 16.

In March 2003, Prudential Financial's Board of Directors authorized a new stock repurchase program under which the Company is authorized to purchase up to $1 billion of its outstanding Common Stock.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

14. STOCKHOLDERS' EQUITY *(continued)*

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

Comprehensive Income

The components of comprehensive income for the years ended December 31, are as follows:

	2002	2001	2000
		(in millions)	
Net income (loss)	$ 194	$ (154)	$ 398
Other comprehensive income, net of tax:			
Change in foreign currency translation adjustments	83	(130)	(89)
Change in net unrealized investments gains	1,606	869	1,019
Additional pension liability adjustment	(48)	(29)	(11)
Other comprehensive income, net of tax of $818, $568, $629	1,641	710	919
Comprehensive income	$ 1,835	$ 556	$ 1,317

The balance of and changes in each component of "Accumulated other comprehensive income (loss)" for the years ended December 31, are as follows (net of taxes):

	Accumulated Other Comprehensive Income (Loss)			
	Foreign Currency Translation Adjustments	Net Unrealized Investment Gains (Losses)	Pension Liability Adjustment	Total Accumulated Other Comprehensive Income (Loss)
		(in millions)		
Balance, December 31, 1999	$ (18)	$ (660)	$ (7)	$ (685)
Change in component during year	(89)	1,019	(11)	919
Balance, December 31, 2000	(107)	359	(18)	234
Change in component during year	(130)	869	(29)	710
Balance, December 31, 2001	(237)	1,228	(47)	944
Change in component during year	83	1,606	(48)	1,641
Balance, December 31, 2002	$ (154)	$ 2,834	$ (95)	$ 2,585

Statutory Net Income and Surplus

Prudential Financial's U.S. insurance subsidiaries are required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the insurance department of the state of domicile. Statutory accounting practices primarily differ from GAAP by charging policy acquisition costs to expense as incurred, establishing future policy benefit liabilities using different actuarial assumptions as well as valuing investments and certain assets and accounting for deferred taxes on a different basis. Statutory net income (loss) of Prudential Insurance amounted to $(490) million, $(896) million and $149 million for the years ended December 31, 2002, 2001 and 2000, respectively. Statutory capital and surplus of Prudential Insurance amounted to $5,699 million and $6,420 million at December 31, 2002 and 2001, respectively.

15. 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

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

15. EARNINGS PER SHARE *(continued)*

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 periods 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 and policies in force and statutory cash premiums. To the extent reported administrative expenses vary from these cash flow amounts, the differences are recorded, on an after tax basis, as direct equity adjustments to the equity balances of the businesses. The direct equity adjustments modify the earnings available to each of the classes of common stock for earnings per share purposes.

Common Stock

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

	2002			December 18, 2001 through December 31, 2001		
	Income (in millions)	Weighted Average Shares	Per Share Amount	Income (in millions)	Weighted Average Shares	Per Share Amount
Basic earnings per share						
Income from continuing operations attributable to the Financial Services Businesses	$ 741			$ 40		
Direct equity adjustment	43			—		
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 784	576,567,377	$ 1.36	$ 40	580,047,053	$ 0.07
Effect of dilutive securities and compensation programs						
Stock options		759,993			780,337	
Deferred and long-term compensation programs		655,125			—	
Put options		1,324			—	
Diluted earnings per share						
Income from continuing operations attributable to the Financial Services Businesses available to holders of Common Stock after direct equity adjustment	$ 784	577,983,819	$ 1.36	$ 40	580,827,390	$ 0.07

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 are considered in the diluted earnings per share calculation using the treasury stock method. The purchase contracts will be dilutive to earnings per share when the average market price of the Common Stock for a particular period is above $34.10.

For the year ended December 31, 2002, 5,349,629 options, weighted for the portion of the period they were outstanding, with a weighted average exercise price of $32.97 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.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

15. EARNINGS PER SHARE *(continued)*

Class B Stock

The net income (loss) attributable to the Closed Block Business available to holders of Class B Stock after direct equity adjustment for the year ended December 31, 2002 and the period December 18, 2001 through December 31, 2001 amounted to $(528) million and $3 million, respectively. For the year ended December 31, 2002, the direct equity adjustment resulted in an increase of $43 million in the net loss attributable to the Closed Block Business applicable to holders of Class B Stock for earnings per share purposes. There was no direct equity adjustment in 2001. For the year ended December 31, 2002 and the period December 18, 2001 through December 31, 2001, 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.

16. STOCK-BASED COMPENSATION

Stock Options

The Company's Board of Directors adopted the Prudential Financial, Inc. Stock Option Plan (the "Plan"). Nonqualified Stock Options and Incentive Stock Options as well as Stock Appreciation Rights ("SARs") are eligible for grant under the Plan. Participants can be employees and non-employees (*i.e.*, statutory agents who perform services for the Company and participating subsidiaries). Under the Plan, the Company can make two types of grants, an Associates Grant and general grants (the "Executive Grants"). The Associates Grant, which occurred in December 2001, was a one-time broad based award that granted 240 stock options per full-time participant and 120 options per part-time participant. The Executive Grants, which began in 2002, are awarded to executives on a recurring basis primarily as replacement for a portion of long-term cash compensation. Each stock option granted under either type of grant has or will have an exercise price no less than the fair market value of the Company's Common Stock on the date of grant and has a maximum term of 10 years. Generally, one third of the option grant vests in each of the first three years. Under the Plan, a total of 12,322,009 shares were initially authorized for the Associates Grant and a total of 30,805,024 shares were initially authorized for the Executive Grants. At December 31, 2002, 20,629,310 authorized shares remained available for grants of stock options and SARs for the Executive Grants. As of December 31, 2002, there have not been any grants of SARs.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

16. STOCK-BASED COMPENSATION *(continued)*

Employee Stock Option Grants

During 2002 and 2001, the Company accounted for employee stock options using the intrinsic value method of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," and related interpretations. Under this method, the Company did not recognize any stock-based compensation expense for employee stock options as all options granted had an exercise price equal to the market value of the underlying Common Stock on the date of grant. Effective January 1, 2003, the Company changed its accounting for employee stock options to adopt the fair value recognition provisions of SFAS No. 123, "Accounting for Stock- Based Compensation," as amended, prospectively for all new awards granted to employees on or after January 1, 2003. Generally, awards under the Plan vest over three years. The expense related to employee stock options to be included in the determination of net income for 2003 will be less than that which would have been recognized if the fair value method had been applied to all awards since the inception of the Plan. If the Company had accounted for all employee stock options under the fair value based accounting method of SFAS No. 123 for the year ended December 31, 2002 and the period December 18, 2001 through December 31, 2001, net income and earnings per share would have been as follows:

	Year ended December 31, 2002		December 18, 2001 through December 31, 2001	
	Financial Services Businesses	Closed Block Business	Financial Services Businesses	Closed Block Business
	(in millions, except per share amounts)			
Net income (loss)				
As reported	$ 679	$ (485)	$ 38	$ 3
Pro forma compensation expense determined under fair value method, net of tax	30	—	1	—
Pro forma	$ 649	$ (485)	$ 37	$ 3
Basic and diluted net income (loss) per share				
As reported	$ 1.25	$ (264.00)	$ 0.07	$ 1.50
Pro forma compensation expense determined under fair value method, net of tax	0.05	—	0.01	—
Pro forma	$ 1.20	$ (264.00)	$ 0.06	$ 1.50

Grants of stock options since the demutualization include the one-time Associates Grant in December 2001 and the Executive Grants during 2002. The Executive Grants replace a portion of long-term cash compensation, which cash compensation would have been expensed. The above table reflects the pro forma effect of the fair value based accounting method considering both the Associates Grant and the Executive Grants. The pro forma effect of the Executive Grants, without considering the Associates Grant, would have been to reduce net income by $12 million for the year ended December 31, 2002, with a corresponding reduction of $0.02 to basic and diluted net income per share of Common Stock for the year ended December 31, 2002.

The fair value of each option was estimated on the date of grant using a Black-Scholes option-pricing model with the following weighted average assumptions:

	2002	2001
Dividend yield	1.05%	1%
Expected volatility	33.33%	37%
Risk-free interest rate	3.98%	4.05%
Expected life of stock option	6 years	4 years

The dividend yield reflects the assumption that the current dividend payout will continue with no anticipated increases.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

16. STOCK-BASED COMPENSATION *(continued)*

A summary of the status of the Company's employee stock option grants is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2000	—	$ —
Granted	11,364,120	27.53
Exercised	—	—
Forfeited	(116,400)	27.50
Expired	—	—
Transfer to non-employee status	(41,760)	27.50
Outstanding at December 31, 2001	11,205,960	27.53
Granted	10,367,694	33.53
Exercised	(45,109)	27.50
Forfeited	(2,338,522)	28.29
Expired	—	—
Transfer to non-employee status	(68,662)	(27.70)
Outstanding at December 31, 2002	19,121,361	$ 30.69

Options exercisable were 3,291,965 shares with a weighted average exercise price of $27.72 and 15,000 shares with a weighted average exercise price of $27.50 at December 31, 2002 and 2001, respectively.

Employee options granted and their related grant date weighted average fair value are as follows:

	2002			2001		
	Shares	Weighted Average Grant Date Fair Value	Weighted Average Exercise Price	Shares	Weighted Average Grant Date Fair Value	Weighted Average Exercise Price
Exercise equals market	10,367,694	$ 11.87	$ 33.53	11,364,120	$ 8.78	$ 27.53
Exercise exceeds market	—	—	—	—	—	—
Exercise less than market	—	—	—	—	—	—
Total granted during the year	10,367,694	$ 11.87	$ 33.53	11,364,120	$ 8.78	$ 27.53

The following table summarizes information about the employee stock options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Range of exercise prices:					
$27.50 — $29.81	9,193,303	8.96	$ 27.53	3,195,091	$ 27.53
$32.00 — $34.24	9,928,058	9.56	$ 33.61	96,874	$ 33.95
Total	19,121,361	9.27	$ 30.69	3,291,965	$ 27.72

Non-employee Stock Option Grants

The Company applies SFAS No. 123 in accordance with Emerging Issues Task Force Issue No. 96-18 "Accounting for Equity Instruments That Are Issued to Other Than Employees" and related interpretations in accounting for its non-employee stock options.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

16. STOCK-BASED COMPENSATION *(continued)*

The compensation expense recognized for stock-based non-employee compensation awards was $4 million and $270 thousand for the year ended December 31, 2002 and the period December 18, 2001 through December 31, 2001, respectively.

The fair value of each option was estimated on the balance sheet date for nonvested options and on the vesting date for vested options using a Black-Scholes option-pricing model with the following weighted average assumptions:

	2002	2001
Dividend yield	1.30%	1%
Expected volatility	35.60%	37%
Risk-free interest rate	2.15%	4.07%
Expected life of stock option	3.21 years	3.95 years

The dividend yield reflects the assumption that the current dividend payout will continue with no anticipated increases.

A summary of the status of the Company's non-employee stock option grants is as follows:

	Shares	Weighted Average Exercise Price
Outstanding at December 31, 2000	—	$ —
Granted	773,760	27.50
Exercised	—	—
Forfeited	(1,920)	27.50
Expired	—	—
Transfer from employee status	41,760	27.50
Outstanding at December 31, 2001	813,600	27.50
Granted	83,980	33.96
Exercised	(2,480)	27.50
Forfeited	(99,935)	27.54
Expired	—	—
Transfer from employee status	68,662	27.70
Outstanding at December 31, 2002	863,827	$ 28.14

Options exercisable were 268,080 shares with a weighted average exercise price of $27.50 and 1,200 shares with a weighted average exercise price of $27.50 at December 31, 2002 and 2001, respectively. The weighted average fair value was $9.26 and $12.77 at December 31, 2002 and 2001, respectively.

The following table summarizes information about the non-employee stock options outstanding at December 31, 2002:

	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
Range of exercise prices:					
$27.50 — $29.81	778,320	8.96	$ 27.50	268,080	$ 27.50
$33.95 — $34.24	85,507	9.47	$ 33.96	—	$ —
Total	863,827	9.00	$ 28.14	268,080	$ 27.50

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

16. STOCK-BASED COMPENSATION *(continued)*

Deferred Compensation Program

The Company maintains a deferred compensation program for Financial Advisors and certain other employees (the "participants") of Prudential Securities, a wholly owned subsidiary of the Company, under which participants may elect to defer a portion of their compensation. Amounts deposited to participant accounts, including Prudential Securities matching contributions as well as other amounts based on the attainment of specific performance goals, vest in 3 to 8 years. Nonvested balances are forfeited if the participant is terminated for cause or voluntarily terminates prior to the vesting date. In 2002, participants were permitted to elect to redeem all or a portion of their existing nonvested account balances and invest the proceeds in Prudential Financial Common Stock. Accordingly, the Company acquired, on behalf of the participants electing to participate, 1,696,929 shares of Common Stock at a total cost of $56 million. On the date the account balances were converted to Common Stock, related remaining deferred compensation expense of $29 million, which is being amortized over the vesting period, was recorded as a reduction in stockholders' equity. As of December 31, 2002, 1,653,267 nonvested shares were held in participants' accounts and related remaining deferred compensation expense amounted to $21 million. Forfeited shares are reflected as treasury stock of the Company as of the date of forfeiture.

17. EMPLOYEE BENEFIT PLANS

Pension and Other Postretirement Plans

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

The Company provides certain life insurance and health care benefits ("other postretirement benefits") for its retired employees, their beneficiaries and covered dependents. The health care plan is contributory; the life insurance plan is non-contributory.

Substantially all of the Company's U.S. employees may become eligible to receive other postretirement benefits if they retire after age 55 with at least 10 years of service or under certain circumstances after age 50 with at least 20 years of continuous service.

The Company has elected to amortize its transition obligation for other postretirement benefits over 20 years.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

17. EMPLOYEE BENEFIT PLANS *(continued)*

Prepaid and accrued benefits costs are included in "Other assets" and "Other liabilities," respectively, in the Company's Consolidated Statements of Financial Position. The status of these plans as of September 30, adjusted for fourth-quarter activity, is summarized below:

	Pension Benefits		Other Postretirement Benefits	
	2002	2001	2002	2001
	(in millions)			
Change in benefit obligation				
Benefit obligation at the beginning of period	$ (6,607)	$ (5,461)	$ (2,096)	$ (1,996)
Service cost	(175)	(167)	(14)	(18)
Interest cost	(463)	(431)	(152)	(150)
Plan participants' contributions	—	—	(8)	(8)
Amendments	(218)	6	141	—
Acquisitions	—	(765)	—	—
Annuity purchase	68	232	—	—
Actuarial (losses), net	(560)	(510)	(375)	(77)
Contractual termination benefits	(1)	(1)	—	—
Benefits paid	452	462	165	152
Foreign currency changes	(66)	28	—	1
Transfer from postemployment benefits	—	—	(95)	—
Benefit obligation at end of period	$ (7,570)	$ (6,607)	$ (2,434)	$ (2,096)
Change in plan assets				
Fair value of plan assets at beginning of period	$ 8,629	$ 10,356	$ 1,343	$ 1,560
Actual return on plan assets	(299)	(1,114)	(38)	(82)
Annuity purchase	(68)	(232)	—	—
Employer contributions	95	81	8	9
Plan participants' contributions	—	—	8	8
Benefits paid	(452)	(462)	(165)	(152)
Foreign currency changes	9	—	—	—
Fair value of plan assets at end of period	$ 7,914	$ 8,629	$ 1,156	$ 1,343
Funded status				
Funded status at end of period	$ 344	$ 2,022	$ (1,278)	$ (753)
Unrecognized transition (asset) liability	(129)	(236)	41	188
Unrecognized prior service costs	234	46	(9)	2
Unrecognized actuarial (gains) losses, net	1,477	(370)	349	(188)
Effects of fourth quarter activity	11	7	2	1
Net amount recognized	$ 1,937	$ 1,469	$ (895)	$ (750)
Amounts recognized in the Statements of Financial Position				
Prepaid benefit cost	$ 3,082	$ 2,570	$ —	$ —
Accrued benefit liability	(1,285)	(1,177)	(895)	(750)
Intangible asset	4	6	—	—
Accumulated other comprehensive income	136	70	—	—
Net amount recognized	$ 1,937	$ 1,469	$ (895)	$ (750)

The projected benefit obligations, accumulated benefit obligations and fair value of plan assets for the pension plans with accumulated benefit obligations in excess of plan assets were $1,480 million, $1,247 million and $77 million, respectively, at September 30, 2002 and $1,217 million, $1,080 million and $1 million, respectively, at September 30, 2001.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

17. EMPLOYEE BENEFIT PLANS *(continued)*

Pension plan assets consist primarily of equity securities, bonds, real estate and short-term investments, of which $6,385 million and $6,867 million are included in Separate Account assets and liabilities at September 30, 2002 and 2001, respectively.

In 2002 and 2001, the pension plan purchased annuity contracts from Prudential Insurance for $68 million and $232 million, respectively. The approximate future annual benefit payment for the annuity contracts was $20 million and $14 million in 2002 and 2001, respectively.

The benefit obligation for pensions increased by a total of $218 million in the year 2002 for amendments related to the distribution of value to the pension plan upon demutualization for $200 million and $18 million related to Prudential Securities cash balance feature, which increased the amount of earnings considered pensionable. The benefit obligation for pensions decreased by $6 million in the year 2001 for miscellaneous changes related to the cash balance formula. The introduction of the cash balance formula was a feature of the substantive plan as of the measurement date and is effective January 1, 2001 for new employees and January 1, 2002 for existing employees.

Other postretirement benefit plan assets consist of group and individual life insurance policies, common stocks, corporate debt securities, U.S. government securities, short-term investments and tax-exempt municipal debt. Plan assets include $347 million and $395 million of Company insurance policies at September 30, 2002 and 2001, respectively.

The benefit obligation for other postretirement benefits decreased by $141 million in the year 2002 for changes in the substantive plan made to medical and dental benefits. The significant cost reduction relates to changes in the prescription drug program of $128 million for co-payments and $13 million for cost sharing shifts to certain retirees for medical and dental benefits. Also in 2002, the Company approved the establishment of a new category of retiree called disabled retirees. Based on this new category, $95 million of medical and dental benefits were transferred from postemployment benefits to postretirement benefits. The benefit obligation for other postretirement benefits was not affected by amendments in 2001.

The pension benefits were amended during the time period presented to provide contractual termination benefits to certain plan participants whose employment had been terminated. Costs related to these amendments are reflected in contractual termination benefits in the table below.

Net periodic (benefit) cost included in "General and administrative expenses" in the Company's Consolidated Statements of Operations for the years ended December 31, includes the following components:

	Pension Benefits			Other Postretirement Benefits		
	2002	2001	2000	2002	2001	2000
	(in millions)					
Components of net periodic (benefit) cost						
Service cost	$ 175	$ 167	$ 140	$ 15	$ 18	$ 29
Interest cost	463	431	427	152	150	150
Expected return on plan assets	(913)	(880)	(799)	(115)	(134)	(133)
Amortization of transition amount	(106)	(106)	(106)	17	17	36
Amortization of prior service cost	30	12	47	—	—	—
Amortization of actuarial net (gain)	(45)	(85)	(77)	(10)	(16)	(24)
Contractual termination benefits	1	4	6	—	—	—
Net periodic (benefit) cost	$ (395)	$ (457)	$ (362)	$ 59	$ 35	$ 58

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

17. EMPLOYEE BENEFIT PLANS *(continued)*

The assumptions at September 30, used by the Company to calculate the benefit obligations as of that date and to determine the benefit cost in the year are as follows:

	Pension Benefits			Other Postretirement Benefits		
	2002	2001	2000	2002	2001	2000
Weighted-average assumptions						
Discount rate (beginning of period)	7.25%	7.75%	7.75%	7.25%	7.75%	7.75%
Discount rate (end of period)	6.50%	7.25%	7.75%	6.50%	7.25%	7.75%
Rate of increase in compensation levels (beginning of period)	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Rate of increase in compensation levels (end of period)	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Expected return on plan assets (beginning of period)	9.50%	9.50%	9.50%	9.00%	9.00%	9.00%
Health care cost trend rates	—	—	—	6.40–10.00%	6.76–8.76%	7.10–9.50%
Ultimate health care cost trend rate after gradual decrease until 2006	—	—	—	5.00%	5.00%	5.00%

The Company, with respect to pension benefits, uses market related value to determine the components of net periodic benefit cost. Market related value is a measure of asset value that reflects the difference between actual and expected return on assets over a 5 year period.

The expected rates of return for 2003 for pension benefits and other postretirement benefits are 8.75% and 7.75%, respectively.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plan. A one-percentage point increase and decrease in assumed health care cost trend rates would have the following effects:

	Other Postretirement Benefits
	2002
	(in millions)
One percentage point increase	
Increase in total service and interest costs	$ 12
Increase in postretirement benefit obligation	178
One percentage point decrease	
Decrease in total service and interest costs	$ 10
Decrease in postretirement benefit obligation	154

Postemployment Benefits

The Company accrues postemployment benefits primarily for life and health benefits provided to former or inactive employees who are not retirees. The net accumulated liability for these benefits at December 31, 2002 and 2001, was $91 million and $189 million, respectively, and is included in “Other liabilities.”

Other Employee Benefits

The Company sponsors voluntary savings plans for employees (401(k) plans). The plans provide for salary reduction contributions by employees and matching contributions by the Company of up to 4%, 4% and 3% of annual salary for 2002, 2001 and 2000, respectively. The matching contributions by the Company included in “General and administrative expenses” were $55 million, $72 million and $62 million for the years ended December 31, 2002, 2001 and 2000, respectively.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

18. INCOME TAXES

The components of income tax expense (benefit) for the years ended December 31, were as follows:

	2002	2001	2000
		(in millions)	
Current tax expense (benefit)			
U.S.	$ (116)	$ (1,023)	$ 364
State and local	2	60	31
Foreign	30	59	31
Total	(84)	(904)	426
Deferred tax expense (benefit)			
U.S.	(248)	773	(86)
State and local	(61)	(74)	(37)
Foreign	201	171	95
Total	(108)	870	(28)
Total income tax expense (benefit)	$ (192)	$ (34)	$ 398

The Company's actual income tax expense (benefit) for the years ended December 31, differs from the expected amount computed by applying the statutory federal income tax rate of 35% to income from continuing operations before income taxes for the following reasons:

	2002	2001	2000
		(in millions)	
Expected federal income tax expense (benefit)	$ 23	$ (49)	$ 253
Favorable tax resolution pertaining to 1995 disposition	(183)	—	—
Equity tax	—	(200)	100
Non-taxable investment income	(64)	(63)	(5)
State and local income taxes	(41)	(9)	(4)
Change in valuation allowance	37	17	14
Non-deductible expenses	16	241	31
Other	20	29	9
Total income tax expense (benefit)	$ (192)	$ (34)	$ 398

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

18. INCOME TAXES *(continued)*

Deferred tax assets and liabilities at December 31, resulted from the items listed in the following table:

	2002	2001
	(in millions)	
Deferred tax assets		
Insurance reserves	$ 1,189	$ 894
Policyholder dividends	721	210
Net operating and capital loss carryforwards	426	366
Investments	338	34
Litigation related reserves	92	88
Other	142	120
Deferred tax assets before valuation allowance	2,908	1,712
Valuation allowance	(118)	(77)
Deferred tax assets after valuation allowance	2,790	1,635
Deferred tax liabilities		
Net unrealized investment gains	2,700	890
Deferred policy acquisition costs	1,769	1,779
Employee benefits	286	90
Depreciation	124	159
Deferred tax liabilities	4,879	2,918
Net deferred tax liability	$ (2,089)	$ (1,283)

Management believes that based on its historical pattern of taxable income, the Company will produce sufficient income in the future to realize its deferred tax asset after valuation allowance. A valuation allowance has been recorded primarily related to tax benefits associated with foreign operations and state and local deferred tax assets. Adjustments to the valuation allowance will be made if there is a change in management's assessment of the amount of the deferred tax asset that is realizable. At December 31, 2002 and 2001, respectively, the Company had federal net operating and capital loss carryforwards of $348 million and $109 million, which expire between 2007 and 2018. At December 31, 2002 and 2001, respectively, the Company had state operating and capital loss carryforwards for tax purposes approximating $4,182 million and $2,647 million, which expire between 2005 and 2022. At December 31, 2002 and 2001, respectively, the Company had foreign operating loss carryforwards for tax purposes approximating $341 million and $643 million, which expire between 2003 and 2007.

Deferred taxes are not provided on the undistributed earnings of foreign subsidiaries (considered to be permanent investments), which at December 31, 2002 were $2,240 million. Determining the tax liability that would arise if these earnings were remitted is not practicable.

The Internal Revenue Service (the "Service") has completed all examinations of the consolidated federal income tax returns through 1992, as well as 1996. The Service has examined the years 1993 through 1995 and the Company is in the process of finalizing an agreement with the Service with respect to proposed adjustments for those tax years. The Service has begun its examination of 1997 through 2001. Management believes sufficient provisions have been made for potential adjustments.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

19. FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values presented below have been determined by using available market information and by applying valuation methodologies. Considerable judgment is applied in interpreting data to develop the estimates of fair value. Estimated fair values may not be realized in a current market exchange. The use of different market assumptions and/or estimation methodologies could have a material effect on the estimated fair values. The methods and assumptions discussed below were used in calculating the estimated fair values of the instruments. See Note 20 for a discussion of derivative instruments.

Fixed Maturities

Estimated fair values for fixed maturities, other than private placement securities, are based on quoted market prices or prices obtained from independent pricing services. Estimated fair values for private placement fixed maturities are determined primarily by using a discounted cash flow model which considers the current market spreads between the U.S. Treasury yield curve and corporate bond yield curve, adjusted for the type of issue, its current credit quality and its remaining average life. The estimated fair value of certain non-performing private placement fixed maturities is based on amounts estimated by management.

Commercial Loans

The estimated fair value of commercial loans is primarily based upon the present value of the expected future cash flows discounted at the appropriate U.S. Treasury rate or Japanese Government Bond rate for yen based loans, adjusted for the current market spread for similar quality loans.

Policy Loans

The estimated fair value of U.S. insurance policy loans is calculated using a discounted cash flow model based upon current U.S. Treasury rates and historical loan repayment patterns, while Japanese insurance policy loans use the risk-free proxy based on the Yen Libor.

Mortgage Securitization Inventory

The estimated fair value of the mortgage securitization inventory is primarily based upon the intended exit strategy for the mortgage loans, including securitization and whole loan sales. For loans expected to be securitized, the value is estimated using a pricing model that, among other factors, considers current investor yield requirements for subordination and yield.

Investment Contracts

For guaranteed investment contracts, income annuities and other similar contracts without life contingencies, estimated fair values are derived using discounted projected cash flows based on interest rates being offered for similar contracts with maturities consistent with those of the contracts being valued. For individual deferred annuities and other deposit liabilities, fair value approximates carrying value.

Debt and Guaranteed beneficial interest in Trust holding solely debentures of Parent

The estimated fair value of short-term and long-term debt and the guaranteed beneficial interest in Trust holding solely debentures of Parent is derived by using discount rates based on the borrowing rates currently available to the Company for debt and financial instruments with similar terms and remaining maturities.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

19. FAIR VALUE OF FINANCIAL INSTRUMENTS *(continued)*

The carrying amount approximates fair value for the following instruments: fixed maturities available for sale, equity securities, short-term investments, cash and cash equivalents, restricted cash and securities, separate account assets and liabilities, trading account assets, broker-dealer related receivables/payables, securities purchased under agreements to resell, cash collateral for borrowed securities, securities sold under agreements to repurchase, cash collateral for loaned securities, and securities sold but not yet purchased. The following table discloses the Company's financial instruments where the carrying amounts and estimated fair values differ at December 31,

	2002		2001	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(in millions)			
Fixed maturities held to maturity	$ 2,612	$ 2,673	$ 374	$ 395
Commercial loans	19,287	21,221	19,729	20,106
Policy loans	8,827	10,714	8,570	9,562
Mortgage securitization inventory	700	708	1,180	1,185
Investment contracts	37,871	38,765	35,379	35,911
Short-term and long-term debt	8,226	8,804	10,709	10,840
Guaranteed beneficial interest in Trust holding solely debentures of Parent	690	755	690	690

20. DERIVATIVE INSTRUMENTS

Types of Derivative Instruments

Interest rate swaps are used by the Company to manage interest rate exposures arising from mismatches between assets and liabilities (including duration mismatches) and to hedge against changes in the value of assets it anticipates acquiring and other anticipated transactions and commitments. As an example, the Company may use interest rate swaps to hedge the interest rate risk associated with value of mortgage loans it has originated and plans to securitize in the future. Under interest rate swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts calculated by reference to an agreed notional principal amount. Generally, no cash is exchanged at the outset of the contract and no principal payments are made by either party. Cash is paid or received based on the terms of the swap. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by one counterparty at each due date.

Exchange-traded futures and options are used by the Company to reduce market risks from changes in interest rates, to alter mismatches between the duration of assets in a portfolio and the duration of liabilities supported by those assets, and to hedge against changes in the value of securities it owns or anticipates acquiring or selling. In exchange-traded futures transactions, the Company agrees to purchase or sell a specified number of contracts, the value of which are determined by the value of designated classes of securities, and to post variation margin on a daily basis in an amount equal to the difference in the daily market values of those contracts. The Company enters into exchange-traded futures and options with regulated futures commissions merchants who are members of a trading exchange.

Treasury futures typically are used to hedge duration mismatches between assets and liabilities by replicating Treasury performance. Treasury futures move substantially in value as interest rates change and can be used to either modify or hedge existing interest rate risk. This strategy protects against the risk that cash flow requirements may necessitate liquidation of investments at unfavorable prices resulting from increases in interest rates. This strategy can be a more cost effective way of temporarily reducing the Company's exposure to a market decline than selling fixed income securities and purchasing a similar portfolio when such a decline is believed to be over.

20. DERIVATIVE INSTRUMENTS *(continued)*

When the Company anticipates a significant decline in the stock market that will correspondingly affect its diversified portfolio, it may purchase put index options where the basket of securities in the index is appropriate to provide a hedge against a decrease in the value of the Company's equity portfolio or a portion thereof. This strategy affects an orderly sale of hedged securities. When the Company has large cash flows that it has allocated for investment in equity securities, it may purchase call index options as a temporary hedge against an increase in the price of the securities it intends to purchase. This hedge is intended to permit such investment transactions to be executed with less adverse market impact.

Currency derivatives, including exchange-traded currency futures and options, currency forwards and currency swaps, are used by the Company to reduce market risks from changes in currency exchange rates with respect to investments denominated in foreign currencies that the Company either holds or intends to acquire or sell. The Company also uses currency forwards to hedge the currency risk associated with net investments in foreign operations and anticipated earnings of its foreign operations.

Under exchange-traded currency futures and options, the Company agrees to purchase or sell a specified number of contracts and to post variation margin on a daily basis in an amount equal to the difference in the daily market values of those contracts. The Company enters into exchange-traded currency futures and options with regulated futures commissions merchants who are members of a trading exchange.

Under currency forwards, the Company agrees with other parties to deliver a specified amount of an identified currency at a specified future date. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date. As noted above, the Company uses currency forwards to mitigate the risk that unfavorable changes in currency exchange rates will reduce U.S. dollar equivalent earnings generated by certain of its non-U.S. businesses, primarily its Japanese insurance operations. The Company executes forward sales of 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 currency swaps, the Company agrees with other parties to exchange, at specified intervals, the difference between one currency and another at a forward exchange rate and calculated by reference to an agreed principal amount. Generally, the principal amount of each currency is exchanged at the beginning and termination of the currency swap by each party. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by one counterparty for payments made in the same currency at each due date.

Credit derivatives are used by the Company to enhance the return on the Company's investment portfolio by providing comparable exposure to fixed income securities that might not be available in the primary market. Credit derivatives are sold for a premium and are recorded at fair value.

Forward contracts are used by the Company to manage market risks relating to interest rates and commodities and trades in mortgage-backed securities forward contracts. The latter activity was exited in connection with the restructuring of Prudential Securities Group Inc.'s capital markets activities as discussed in Note 4. Typically, the price is agreed upon at the time of the contract and payment for such a contract is made at the specified future date.

Cash Flow, Fair Value and Net Investment Hedges

The ineffective portion of derivatives accounted for using hedge accounting in the years ended December 31, 2002 and 2001 was not material to the results of operations of the Company. In addition, there were no instances in which the Company discontinued cash flow hedge accounting because the forecasted transaction did not occur on the anticipated date or within the additional time period permitted by SFAS No. 133.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

20. DERIVATIVE INSTRUMENTS *(continued)*

Presented below is a roll forward of current period cash flow hedges in "Accumulated other comprehensive income (loss)" before taxes.

	(in millions)
Additions due to cumulative effect of change in accounting principle upon adoption of SFAS No. 133 at January 1, 2001	$ 9
Net deferred losses on cash flow hedges from January 1 to December 31, 2001	(1)
Amount reclassified into current period earnings	(24)
Balance, December 31, 2001	(16)
Net deferred gains on cash flow hedges from January 1 to December 31, 2002	40
Amount reclassified into current period earnings	(27)
Balance, December 31, 2002	$ (3)

It is anticipated that a pre-tax gain of approximately $26 million will be reclassified from "Accumulated other comprehensive income (loss)" to earnings during the year ended December 31, 2003 and offset by equal amounts pertaining to the hedged items. The maximum length for which variable cash flows are hedged is 15 years. Income amounts deferred in "Accumulated other comprehensive income (loss)" as a result of cash flow hedges are included in "Net unrealized investment gains (losses)" in the Consolidated Statements of Stockholders' Equity.

For effective net investment hedges, the amounts, before applicable taxes, recorded in the cumulative translation adjustments account within "Accumulated other comprehensive income (loss)" were losses of $67 million in 2002, gains of $77 million in 2001 and gains of $88 million in 2000.

For the years ended December 31, 2002 and 2001, there were no reclassifications to earnings due to firm commitments no longer deemed probable or due to forecasted transactions that had not occurred by the end of the originally specified time period.

Credit Risk

The Company is exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments. Generally, the current credit exposure of the Company's derivative contracts is limited to the fair value at the reporting date. The credit exposure of the Company's swaps transactions is represented by the fair value (market value) of contracts with a positive fair value (market value) at the reporting date. Because exchange-traded futures and options are effected through regulated exchanges, and positions are marked to market on a daily basis, the Company has little exposure to credit-related losses in the event of nonperformance by counterparties to such financial instruments. The credit exposure of exchange-traded instruments is represented by the negative change, if any, in the fair value (market value) of contracts from the fair value (market value) at the reporting date. The credit exposure of currency forwards is represented by the difference, if any, between the exchange rate specified in the contract and the exchange rate for the same currency at the reporting date.

The Company manages credit risk by entering into transactions with creditworthy counterparties and obtaining collateral where appropriate and customary. In addition, the Company enters into over-the-counter swaps pursuant to master agreements that provide for a single net payment to be made by one counterparty to another at each due date and upon termination. Likewise, the Company effects exchange-traded futures and options through regulated exchanges and these positions are marked to market on a daily basis.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

21. SEGMENT INFORMATION

Segments

The Company has organized its principal operations into the Financial Services Businesses and the Closed Block Business. In August 2002, the Company implemented organizational changes within the Financial Services Businesses. The segment information below presents the results of the Company's divisions and segments on a basis consistent with the new organizational structure. The reclassifications associated with the realignment of the Company's divisions and segments had no impact on total adjusted operating income (defined below) or net income of the Financial Services Businesses or the Closed Block Business.

Within the Financial Services Businesses, the Company operates through three divisions, which together encompass nine reportable segments. Businesses that are not sufficiently material to warrant separate disclosure are included in Corporate and Other operations. Collectively, the businesses that comprise the three 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.

The Insurance division consists of the Individual Life and Annuities, Group Insurance and Property and Casualty Insurance segments. The Individual Life and Annuities segment manufactures and distributes individual variable life, term life, universal life, other non-participating individual life insurance and variable and fixed annuity products primarily to the U.S. mass affluent market and mass market. The Group Insurance segment manufactures and distributes a full range of group life, group disability, long-term care and corporate-owned and trust-owned life insurance products in the U.S. to institutional clients primarily for use in connection with employee and membership benefit plans. The Property and Casualty Insurance segment manufactures and distributes personal lines property and casualty insurance products, principally automobile and homeowners coverages, to the U. S. retail market.

The Investment division consists of the Investment Management, Financial Advisory, Retirement and Other Asset Management segments. The Investment Management segment provides a broad array of investment management and advisory services, mutual funds and other structured products. The products and services are marketed and provided to the public and private marketplace in addition to the Insurance division, the International Insurance and Investments division and the Financial Advisory and Retirement segments. The Financial Advisory segment provides full service securities brokerage and financial advisory services to individuals and businesses through the domestic and Latin American financial advisor force and network of branch offices. This segment also includes the equity security sales and trading operations, the investment research operations, the consumer banking operations and the distribution of wrap-fee products. The Retirement segment manufactures and distributes products and provides administrative services for qualified and non-qualified retirement plans as well as offers guaranteed investment contracts, funding agreements and group annuities. The Other Asset Management segment includes the Company's commercial mortgage securitization operations, hedge portfolio investing and proprietary investment and syndication activities.

The International Insurance and Investments division consists of the International Insurance and International Investments segments. The International Insurance segment manufactures and distributes individual life insurance products to the affluent market in Japan and other foreign markets, such as in Korea and Taiwan, and other Asian, Latin American and European countries through life planners. In addition, as a result of the acquisition of Gibraltar Life, similar products are offered to the broad middle income market across Japan through life advisors, the proprietary distribution channel of Gibraltar Life. The International Investments segment provides private banking, asset management and investment advice and product choice to high net worth and mass affluent retail clients and to institutional clients in selected international markets.

Corporate and Other operations include corporate-level activities and international ventures that are not allocated to business segments as well as the real estate and relocation services operations and certain divested and wind-down businesses. Wind-down businesses include individual health insurance, group credit insurance

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

21. SEGMENT INFORMATION *(continued)*

and Canadian life insurance. The divested businesses consist primarily of the lead-managed equity underwriting for corporate issuers and institutional fixed income businesses of Prudential Securities Group Inc. (see Note 4), and also include Gibraltar Casualty, residential first mortgage banking and certain Canadian businesses. Corporate-level activities include corporate-level income and expenses not allocated to any business segments, including the cost of company-wide initiatives, investment returns on capital not deployed in any segments, returns from investments not allocated to any business segments including a debt-financed investment portfolio, transactions with other segments and consolidating adjustments. Corporate-level activities also include certain obligations, relating to policyholders whom the Company had previously agreed to provide insurance for reduced or no premium in accordance with contractual settlements related to prior sales practices remediation.

The Closed Block Business, which is managed separately from the Financial Services Businesses, was established on the date of demutualization. It includes the Closed Block (as discussed in Note 10); assets held outside the Closed Block necessary to meet insurance regulatory capital requirements related to products included within the Closed Block; deferred policy acquisition costs related to the Closed Block policies; the principal amount of the IHC debt (as discussed in Note 12) and related unamortized debt issuance costs and an interest rate swap related to the IHC debt; and certain other related assets and liabilities. For the periods prior to the date of demutualization, the results of the Closed Block Business are those of the former 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 former Traditional Participating Products segment was transferred to the Financial Services Businesses. Consequently, the results of the Financial Services Businesses for the year ended December 31, 2002 and the period December 18, 2001 through December 31, 2001 include returns on these assets. A minor portion of the former 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.

The accounting policies of the segments are the same as those described in Note 2, “Summary of Significant Accounting Policies.” Segment results reflect certain reclassifications of historical revenues and expenses to conform to the Company’s current presentation. These reclassifications have no impact on adjusted operating income (defined below) of any of the Company’s divisions or segments. Results for each segment include earnings on attributed equity established at a level which management considers necessary to support the segment’s risks. 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.

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 continuing 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); sales practices remedies and costs; the contribution to income/loss of divested businesses that were sold or exited that did not qualify for “discontinued operations” accounting treatment under GAAP; and demutualization costs and expenses.

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 Consolidated Financial Statements

21. SEGMENT INFORMATION *(continued)*

The Company excludes realized investment gains, net of losses including impairments and sales of credit-impaired securities and related charges and adjustments, from adjusted operating income. The timing of impairments and losses from sales of credit-impaired securities is largely dependent on market credit cycles and can vary considerably across periods. In addition, the timing of other sales that would result in gains or losses is subject to the Company's discretion. Including the fluctuating effects of these transactions could distort trends in the underlying profitability of the businesses. The Company excludes sales practices remedies and costs relating to the settlement of individual life insurance sales practices issues for the period from 1982 through 1995 because they relate to a substantial and identifiable non-recurring event. The Company excludes the contribution to income/loss of businesses that were divested 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 Company excludes demutualization costs and expenses as they are directly related to demutualization and could distort the trends associated with ongoing business operations.

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 operations 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 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 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 $42 million, $34 million and $22 million for the years ended December 31, 2002, 2001 and 2000, respectively). As of December 31, 2002 and 2001, the fair value of open contracts used for this purpose was a net liability of $52 million and a net asset of $9 million, respectively.

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, the periodic settlements are included in adjusted operating income. Adjusted operating income includes $52 million for the year ended December 31, 2002 of periodic settlements of such contracts. Amounts in the prior years were insignificant.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

21. SEGMENT INFORMATION *(continued)*

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. Changes in the estimated fair value of such instruments are included on a current basis in "Commissions and other income." Prior to the fourth quarter of 2002, the related mortgage loans were recorded at the lower of aggregate cost or fair value. However, for segment reporting, changes in the estimated fair value of the mortgage loans (gains (losses) of $(2) million, $(21) million and $28 million for the years ended December 31, 2002, 2001 and 2000, respectively) were included in adjusted operating income of the Other Asset Management segment with offsetting adjustments to adjusted operating income of Corporate and Other operations. Commencing in the fourth quarter of 2002, the Company applied hedge accounting treatment with respect to loan inventory. Consequently, changes in the fair value of such inventory are included on a current basis in "Commissions and other income" of the Other Asset Management segment, consistent with the related hedges.

The summary below reconciles adjusted operating income, a non-GAAP measure, to income from continuing operations before income taxes:

	Year ended December 31, 2002						
		Reconciling Items					
	Adjusted Operating Income	Realized Investment Gains (Losses), Net, and Related Adjustments	Charges Related to Realized Gains (Losses), Net	Sales Practices Remedies and Costs	Divested Businesses	Demutualization Costs and Expenses	Income from Continuing Operations Before Income Taxes
				(in millions)			
Individual Life and Annuities	$ 390	$ (162)	$ 15	$ —	$ —	$ —	$ 243
Group Insurance	155	(129)	—	—	—	—	26
Property and Casualty Insurance	10	(6)	—	—	—	—	4
Total Insurance Division	555	(297)	15	—	—	—	273
Investment Management	139	64	—	—	—	—	203
Financial Advisory	(41)	—	—	—	—	—	(41)
Retirement	141	(383)	7	—	—	—	(235)
Other Asset Management	45	—	—	—	—	—	45
Total Investment Division	284	(319)	7	—	—	—	(28)
International Insurance	757	(157)	(16)	—	—	—	584
International Investments	(10)	—	—	—	—	—	(10)
Total International Insurance and Investments Division	747	(157)	(16)	—	—	—	574
Corporate and Other	194	(92)	—	(20)	(80)	—	2
Total Financial Services Businesses	$ 1,780	$ (865)	$ 6	$ (20)	$ (80)	$ —	821
Closed Block Business							(757)
Total							$ 64

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

21. SEGMENT INFORMATION *(continued)*

	Year ended December 31, 2001						
		Reconciling Items					
	Adjusted Operating Income	Realized Investment Gains (Losses), Net, and Related Adjustments	Charges Related to Realized Gains (Losses), Net	Sales Practices Remedies and Costs	Divested Businesses	Demutualization Costs and Expenses	Income from Continuing Operations Before Income Taxes
				(in millions)			
Individual Life and Annuities	$ 380	$ (108)	$ 12	$ —	$ —	$ —	$ 284
Group Insurance	70	(72)	—	—	—	—	(2)
Property and Casualty Insurance	95	(4)	—	—	—	—	91
Total Insurance Division	545	(184)	12	—	—	—	373
Investment Management	141	(8)	—	—	—	—	133
Financial Advisory	(136)	—	—	—	—	—	(136)
Retirement	110	(100)	14	—	—	—	24
Other Asset Management	55	—	—	—	—	—	55
Total Investment Division	170	(108)	14	—	—	—	76
International Insurance	611	(57)	—	—	—	—	554
International Investments	(41)	—	—	—	—	—	(41)
Total International Insurance and Investments Division	570	(57)	—	—	—	—	513
Corporate and Other	64	187	—	—	(147)	(588)	(484)
Total Financial Services Businesses	$ 1,349	$ (162)	$ 26	$ —	$ (147)	$ (588)	478
Closed Block Business							(619)
Total							$ (141)

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

21. SEGMENT INFORMATION *(continued)*

	Year ended December 31, 2000						
		Reconciling Items					
	Adjusted Operating Income	Realized Investment Gains (Losses), Net, and Related Adjustments	Charges Related to Realized Gains (Losses), Net	Sales Practices Remedies and Costs	Divested Businesses	Demutualization Costs and Expenses	Income from Continuing Operations Before Income Taxes
				(in millions)			
Individual Life and Annuities	$ 261	$ (14)	$ 2	$ —	$ —	$ —	$ 249
Group Insurance	158	(2)	—	—	—	—	156
Property and Casualty Insurance	150	16	—	—	—	—	166
Total Insurance Division	569	—	2	—	—	—	571
Investment Management	205	1	—	—	—	—	206
Financial Advisory	399	—	—	—	—	—	399
Retirement	187	(85)	(31)	—	—	—	71
Other Asset Management	42	—	—	—	—	—	42
Total Investment Division	833	(84)	(31)	—	—	—	718
International Insurance	296	(15)	—	—	—	—	281
International Investments	(24)	—	—	—	—	—	(24)
Total International Insurance and Investments Division	272	(15)	—	—	—	—	257
Corporate and Other	43	(280)	—	—	(636)	(143)	(1,016)
Total Financial Services Businesses	$ 1,717	$ (379)	$ (29)	$ —	$ (636)	$ (143)	530
Closed Block Business							193
Total							$ 723

The International Insurance and Investments division includes “Income from continuing operations before income taxes” from Japan of $531 million, $496 million and $289 million, for the years ended December 31, 2002, 2001 and 2000, respectively.

The Individual Life and Annuities segment results reflect deferred policy acquisition costs as if the individual annuity business were a stand-alone operation. The elimination of intersegment costs capitalized in accordance with this policy are included in consolidating adjustments within Corporate and Other operations.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

21. SEGMENT INFORMATION *(continued)*

The summary below presents certain financial information for the Company's reportable segments:

	Year ended December 31, 2002						
	Revenues	Net Investment Income	Policyholders' Benefits	Interest Credited to Policyholders' Account Balances	Dividends to Policyholders	Interest Expense	Amortization of Deferred Policy Acquisition Costs
				(in millions)			
Financial Services Businesses:							
Individual Life and Annuities	$ 2,704	$ 833	$ 815	$ 398	$ 16	$ (3)	$ 500
Group Insurance	3,582	578	2,703	235	—	(2)	(2)
Property and Casualty Insurance	2,209	158	1,604	—	—	—	387
Total Insurance Division	8,495	1,569	5,122	633	16	(5)	885
Investment Management	1,235	30	—	—	—	4	72
Financial Advisory	2,455	175	—	—	—	—	—
Retirement	2,359	2,074	880	978	—	2	20
Other Asset Management	90	30	—	—	—	8	—
Total Investment Division	6,139	2,309	880	978	—	14	92
International Insurance	5,073	682	3,175	96	103	1	233
International Investments	327	37	—	—	—	—	1
Total International Insurance and Investments Division	5,400	719	3,175	96	103	1	234
Corporate and Other	402	596	98	—	3	160	(85)
Total	20,436	5,193	9,275	1,707	122	170	1,126
Items excluded from adjusted operating income:							
Realized investment losses, net of related adjustments	(865)	—	—	—	—	—	—
Related charges	—	—	(1)	—	16	—	(21)
Total realized investment losses, net of related charges and adjustments	(865)	—	(1)	—	16	—	(21)
Divested businesses	(17)	21	79	—	—	—	—
Total Financial Services Businesses	19,554	5,214	9,353	1,707	138	170	1,105
Closed Block Business	7,121	3,618	4,305	139	2,506	156	162
Total per Consolidated Financial Statements	$ 26,675	$ 8,832	$ 13,658	$ 1,846	$ 2,644	$ 326	$ 1,267

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

21. SEGMENT INFORMATION *(continued)*

	Year ended December 31, 2001						
	Revenues	Net Investment Income	Policyholders' Benefits	Interest Credited to Policyholders' Account Balances	Dividends to Policyholders	Interest Expense	Amortization of Deferred Policy Acquisition Costs
				(in millions)			
Financial Services Businesses:							
Individual Life and Annuities	$ 2,720	$ 831	$ 797	$ 396	$ 12	$ 3	$ 366
Group Insurance	3,248	547	2,490	224	—	(2)	4
Property and Casualty Insurance	2,051	158	1,334	—	—	—	395
Total Insurance Division	8,019	1,536	4,621	620	12	1	765
Investment Management	1,357	42	—	—	—	11	76
Financial Advisory	2,751	256	—	—	—	—	—
Retirement	2,394	2,148	913	977	—	13	10
Other Asset Management	105	45	—	—	—	8	—
Total Investment Division	6,607	2,491	913	977	—	32	86
International Insurance	4,146	450	2,600	72	74	4	163
International Investments	303	33	—	—	—	—	1
Total International Insurance and Investments Division	4,449	483	2,600	72	74	4	164
Corporate and Other	444	716	36	1	3	289	(82)
Total	19,519	5,226	8,170	1,670	89	326	933
Items excluded from adjusted operating income:							
Realized investment losses, net of related adjustments	(162)	—	—	—	—	—	—
Related charges	—	—	(6)	—	—	—	(20)
Total realized investment losses, net of related charges and adjustments	(162)	—	(6)	—	—	—	(20)
Divested businesses	(14)	15	—	—	—	—	—
Total Financial Services Businesses	19,343	5,241	8,164	1,670	89	326	913
Closed Block Business	7,728	3,897	4,588	134	2,633	34	213
Total per Consolidated Financial Statements	$ 27,071	$ 9,138	$ 12,752	$ 1,804	$ 2,722	$ 360	$ 1,126

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

21. SEGMENT INFORMATION *(continued)*

	Year ended December 31, 2000						
	Revenues	Net Investment Income	Policyholders' Benefits	Interest Credited to Policyholders' Account Balances	Dividends to Policyholders	Interest Expense	Amortization of Deferred Policy Acquisition Costs
				(in millions)			
Financial Services Businesses:							
Individual Life and Annuities	$ 2,741	$ 845	$ 780	$ 395	$ 13	$ 8	$ 305
Group Insurance	2,801	485	2,042	200	—	(1)	1
Property and Casualty Insurance	1,800	193	1,045	—	—	—	365
Total Insurance Division	7,342	1,523	3,867	595	13	7	671
Investment Management	1,467	28	—	—	—	8	79
Financial Advisory	3,400	310	—	—	—	—	—
Retirement	2,624	2,307	930	1,024	—	44	22
Other Asset Management	66	30	—	—	—	—	—
Total Investment Division	7,557	2,675	930	1,024	—	52	101
International Insurance	1,920	129	1,265	2	1	4	145
International Investments	355	32	—	—	—	—	1
Total International Insurance and Investments Division	2,275	161	1,265	2	1	4	146
Corporate and Other	539	847	23	(3)	4	385	(84)
Total	17,713	5,206	6,085	1,618	18	448	834
Items excluded from adjusted operating income:							
Realized investment losses, net of related adjustments	(379)	—	—	—	—	—	—
Related charges	—	—	36	—	—	—	(7)
Total realized investment losses, net of related charges and adjustments	(379)	—	36	—	—	—	(7)
Divested businesses	269	101	14	—	—	—	—
Total Financial Services Businesses	17,603	5,307	6,135	1,618	18	448	827
Closed Block Business	8,729	4,172	4,505	133	2,706	152	269
Total per Consolidated Financial Statements	$ 26,332	$ 9,479	$ 10,640	$ 1,751	$ 2,724	$ 600	$ 1,096

The International Insurance and Investments division includes "Revenues" from Japan, on a GAAP basis, of $4,305 million, $3,602 million and $1,591 million for the years ended December 31, 2002, 2001 and 2000, respectively.

The Investment Management segment revenues include intersegment revenues of $395 million, $390 million and $381 million for the years ended December 31, 2002, 2001 and 2000, respectively, primarily consisting of asset-based management and administration fees. In addition, the Financial Advisory segment revenues include intersegment revenues of $194 million, $193 million and $209 million for the years ended December 31, 2002, 2001 and 2000, respectively, relating to the sale of proprietary investments products. Management has determined the intersegment revenues with reference to market rates. Intersegment revenues are eliminated in consolidation.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

21. SEGMENT INFORMATION *(continued)*

The summary below presents total assets for the Company's reportable segments at December 31,

	Assets		
	2002	2001	2000
	(in millions)		
Individual Life and Annuities	$ 44,485	$ 47,358	$ 49,633
Group Insurance	18,549	17,026	15,891
Property and Casualty Insurance	4,691	4,323	4,763
Total Insurance Division	67,725	68,707	70,287
Investment Management	20,271	21,236	20,630
Financial Advisory	16,588	20,181	18,622
Retirement	56,018	54,580	59,203
Other Asset Management	4,227	6,521	10,085
Total Investment Division	97,104	102,518	108,540
International Insurance	40,741	38,239	6,726
International Investments	2,814	1,824	2,595
Total International Insurance and Investments Division	43,555	40,063	9,321
Corporate and Other	14,916	20,017	14,678
Total Financial Services Businesses	223,300	231,305	202,826
Closed Block Business	69,446	61,725	69,927
Total	$ 292,746	$ 293,030	$ 272,753

22. COMMITMENTS AND GUARANTEES, CONTINGENCIES AND LITIGATION

Commitments and Guarantees

The following table presents, as of December 31, 2002, the Company's future commitments on short-term and long-term debt and the Units, as more fully described in Notes 12 and 13, and future minimum lease payments under non-cancelable operating leases:

	Short-term and Long-term Debt	Equity Security Units	Operating Leases
		(in millions)	
2003	$ 3,469	$ —	$ 281
2004	473	—	245
2005	64	—	219
2006	70	690	189
2007	256	—	159
Beyond 2007	3,894	—	594
Total	$ 8,226	$ 690	$ 1,687

The Company occupies leased office space in many locations under various long-term leases and has entered into numerous leases covering the long-term use of computers and other equipment. Rental expense incurred for the years ended December 31, 2002, 2001 and 2000 was $449 million, $520 million and $498 million, respectively, excluding expenses relating to the Company's healthcare business.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

22. COMMITMENTS AND GUARANTEES, CONTINGENCIES AND LITIGATION *(continued)*

In connection with the Company's consumer banking business, commitments for 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. The Company evaluates each credit decision on such commitments at least annually and has the ability to cancel or suspend such lines at its option. The total commitments for home equity lines of credit and other lines of credit were $1,990 million, of which $815 million remains available at December 31, 2002.

Other commitments primarily include commitments to originate and sell mortgage loans and commitments to fund investments in private placement securities and limited partnerships. These commitments amounted to $2,224 million at December 31, 2002.

In connection with certain acquisitions, the Company has agreed to pay additional consideration in future periods, based upon the attainment by the acquired entity of defined operating objectives. In accordance with SFAS No. 141, "Business Combinations," the Company does not accrue contingent consideration obligations prior to the attainment of the objectives. At December 31, 2002, maximum potential future consideration pursuant to such arrangements, to be resolved over the following six years, is $266 million. Any such payments would result in increases in goodwill.

A number of guarantees provided by the Company relate to sales or transfers of real estate, in which the unconsolidated investor has borrowed funds, and the Company has guaranteed their obligation to their lender. In some cases, the investor is an affiliate, and in other cases the unaffiliated investor purchases the real estate investment from the Company. The Company provides these guarantees to assist them in obtaining financing for the transaction on more beneficial terms. The Company's maximum potential exposure under these guarantees was $774 million at December 31, 2002. Any payments that may become required of the Company under these guarantees would either first be reduced by proceeds received by the creditor on a sale of the assets, or would provide the Company with rights to obtain the assets. At December 31, 2002, no amounts were accrued as a result of the Company's assessment that it is unlikely payments will be required.

Certain contracts underwritten by the Company's guaranteed products business include guarantees of principal related to financial assets owned by the guaranteed party. These contracts are accounted for as derivatives, at fair value, in accordance with SFAS No. 133. At December 31, 2002, such contracts in force carried a total guaranteed value of $648 million.

The Company has accrued a liability of $4 million at December 31, 2002 related to other financial guarantees and indemnity arrangements with maximum potential payments of $67 million.

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. Through December 31, 2002, Everest had recorded reserve additions of $99 million. In 2002, the Company recorded a liability of $79 million, representing its 80% share of such development.

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

22. COMMITMENTS AND GUARANTEES, 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.

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.

The Company has been subject to substantial regulatory actions and civil litigation, including class actions, involving individual life insurance sales practices from 1982 through 1995. As of January 31, 2003, the Company has resolved those regulatory actions, its sales practices class action litigation and virtually all of the individual sales practices actions filed by policyholders who "opted out" of the sales practices class action. The Company believes that its reserves related to sales practices, at December 31, 2002, are adequate.

In addition, the Company retained all liabilities for the litigation associated with its discontinued healthcare business that existed at the date of closing with Aetna (August 6, 1999), or commenced within two years of that date, with respect to claims relating to events that occurred prior to the closing date. This litigation includes purported class actions and individual suits involving various issues, including payment of claims, denial of benefits, vicarious liability for malpractice claims, and contract disputes with provider groups and former policyholders. Some of the purported class actions challenge practices of the Company's former managed care operations and assert nationwide classes. In October 2000, by Order of the Judicial Panel on Multi-district Litigation, a number of these class actions were consolidated for pre-trial purposes, along with lawsuits pending against other managed health care companies, in the United States District Court for the Southern District of Florida in a consolidated proceeding captioned *In Re Managed Care Litigation*. Some of 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 motion to dismiss the amended complaint in the subscriber action was granted in part and denied in part and an interlocutory appeal of the remaining claims

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

22. COMMITMENTS AND GUARANTEES, CONTINGENCIES AND LITIGATION *(continued)*

was denied. A motion to dismiss the amended complaint in the provider action remains pending. In September 2002, the court denied plaintiffs' motion for class certification in the subscriber action and granted plaintiffs' motion for certification of a nationwide class of providers. The Company has appealed the certification of the provider class to the United States Court of Appeals for the Eleventh Circuit.

A joint venture in which an affiliate of Prudential Securities Group Inc. is a participant brought an arbitration claim against Kyocera Corporation in 1986 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 United States District Court for the Northern District of California has confirmed the award and entered judgment in favor of the claimants. In July 2002, the United States Court of Appeals for the Ninth Circuit affirmed the judgment in favor of the claimants. Kyocera filed a motion for a rehearing *en banc*, which has been granted by the Ninth Circuit with oral argument scheduled in March 2003. If the award is ultimately confirmed, the Company's share of damages, with interest, would exceed $300 million and would be recorded as revenue.

In 1999, a class action lawsuit was filed in the Marion County, Ohio Court of Common Pleas against Jeffrey Pickett (a former Prudential Securities financial advisor) and Prudential Securities alleging that Pickett transferred, without authorization, his clients' equity mutual funds into fixed income mutual funds in October 1998. The claims were based on theories of conversion, breach of contract, breach of fiduciary duty and negligent supervision. Compensatory and punitive damages in unspecified amounts were sought by plaintiffs. In October 2002, the case was tried and the jury returned a verdict against Prudential Securities and Pickett for $11.7 million in compensatory damages and against Prudential Securities for $250 million in punitive damages. The Company will try to have the verdict set aside and, failing that, appeal.

The Company's litigation is subject to many uncertainties, and given the 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.

23. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The unaudited quarterly results of operations for the years ended December 31, 2002 and 2001 are summarized in the table below:

	Three months ended			
	March 31	June 30	September 30	December 31
	(in millions, except per share amounts)			
2002				
Total revenues	$6,684	$6,637	$6,679	$6,675
Total benefits and expenses	6,431	6,735	6,542	6,903
Income (loss) from continuing operations before income taxes	253	(98)	137	(228)
Net income (loss)	153	(68)	302	(193)
Basic and diluted income from continuing operations per share—Common Stock(a)	0.47	0.20	0.68	—
Basic and diluted net income per share—Common Stock(a)	0.46	0.19	0.70	(0.10)
Basic and diluted net income per share—Class B Stock	(58.50)	(88.50)	(49.50)	(67.50)

PRUDENTIAL FINANCIAL, INC.

Notes to Consolidated Financial Statements

23. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED) *(continued)*

	Three months ended			
	March 31	June 30	September 30	December 31
	(in millions, except per share amounts)			
2001				
Total revenues	$ 6,717	$ 7,141	$ 6,333	$ 6,880
Total benefits and expenses	5,985	6,968	6,813	7,446
Income (loss) from continuing operations before income taxes	732	173	(480)	(566)(b)
Net income (loss)	437	195	(280)	(506)(b)
Basic and diluted income from continuing operations per share—Common Stock				0.07(c)
Basic and diluted net income per share—Common Stock				0.07(c)
Basic and diluted net income per share—Class B Stock				1.50(c)

(a) Quarterly earnings per share amounts may not add to the full year amounts due to the averaging of shares.
(b) Income from continuing operations and net income for the period December 18, 2001 through December 31, 2001 were $43 million and $41 million, respectively.
(c) Earnings per share amounts for 2001 are for the period December 18, 2001 through December 31, 2001.

24. OTHER EVENTS

On December 20, 2002, the Company announced it had entered into a definitive Stock Purchase Agreement, dated as of December 19, 2002, with Skandia Insurance Company Ltd. (“Skandia”), an insurance company based in Sweden, pursuant to which the Company will acquire Skandia U.S. Inc., a Delaware corporation (“Skandia U.S.”), from Skandia. The total consideration payable in the transaction includes a cash purchase price of $1.15 billion and the assumption of a $115 million liability, subject to certain purchase price adjustments. The transaction, which is anticipated to close in the second quarter of 2003, is subject to various closing conditions, including, among others, regulatory approvals, filing under the Hart-Scott-Rodino Antitrust Improvements Act and approval by the boards of directors and shareholders of the mutual funds advised by Skandia U.S.’s subsidiaries.

In February 2003, the Company announced an agreement with Wachovia Corporation (“Wachovia”) to combine each company’s respective retail securities brokerage and clearing operations to form a new firm, which will be headquartered in Richmond, Virginia. Under the agreement, Prudential will have a 38% ownership interest in the new firm, which will be accounted for under the equity method of accounting; Wachovia will own the remaining 62%. The transaction, which includes the securities brokerage operations of the Financial Advisory segment, but does not include equity sales, trading and research operations or consumer banking operations of the same segment, is anticipated to close in the third quarter of 2003. This transaction is subject, among other things, to various regulatory approvals and filings and customary closing conditions.

PRUDENTIAL FINANCIAL, INC.

Supplemental Combining Statements of Financial Position
December 31, 2002 and 2001 (in millions)

	2002			2001		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
ASSETS						
Fixed maturities:						
Available for sale, at fair value	$ 79,230	$ 46,233	$ 125,463	$ 68,880	$ 41,062	$ 109,942
Held to maturity, at amortized cost	2,612	—	2,612	374	—	374
Trading account assets, at fair value	3,449	—	3,449	5,043	—	5,043
Equity securities, available for sale, at fair value	1,286	1,521	2,807	1,688	584	2,272
Commercial loans	12,300	6,987	19,287	13,624	6,105	19,729
Policy loans	3,146	5,681	8,827	2,812	5,758	8,570
Securities purchased under agreements to resell	4,844	—	4,844	4,421	—	4,421
Cash collateral for borrowed securities	4,978	—	4,978	5,210	—	5,210
Other long-term investments	4,333	1,075	5,408	4,336	1,082	5,418
Short-term investments	2,840	2,579	5,419	2,972	1,883	4,855
Total investments	119,018	64,076	183,094	109,360	56,474	165,834
Cash and cash equivalents	7,470	2,428	9,898	16,900	1,636	18,536
Accrued investment income	1,021	769	1,790	1,059	769	1,828
Broker-dealer related receivables	5,631	—	5,631	7,802	—	7,802
Deferred policy acquisition costs	5,875	1,156	7,031	5,538	1,330	6,868
Other assets	13,730	1,017	14,747	13,488	1,516	15,004
Separate account assets	70,555	—	70,555	77,158	—	77,158
TOTAL ASSETS	$ 223,300	$ 69,446	$ 292,746	$ 231,305	$ 61,725	$ 293,030
LIABILITIES AND ATTRIBUTED EQUITY						
LIABILITIES						
Future policy benefits	$ 42,213	$ 48,247	$ 90,460	$ 39,752	$ 47,239	$ 86,991
Policyholders' account balances	40,799	5,481	46,280	37,944	5,389	43,333
Unpaid claims and claim adjustment expenses	3,428	—	3,428	3,408	—	3,408
Policyholders' dividends	918	2,757	3,675	925	1,171	2,096
Securities sold under agreements to repurchase	10,250	4,652	14,902	9,280	3,105	12,385
Cash collateral for loaned securities	7,517	2,714	10,231	7,650	1,777	9,427
Income taxes payable	1,910	23	1,933	1,085	247	1,332
Broker-dealer related payables	4,838	—	4,838	6,445	—	6,445
Securities sold but not yet purchased	1,996	—	1,996	2,791	—	2,791
Short-term debt	3,469	—	3,469	5,405	—	5,405
Long-term debt	3,007	1,750	4,757	3,554	1,750	5,304
Other liabilities	11,148	3,054	14,202	15,572	240	15,812
Separate account liabilities	70,555	—	70,555	77,158	—	77,158
Total liabilities	202,048	68,678	270,726	210,969	60,918	271,887
Guaranteed beneficial interest in Trust holding solely debentures of Parent	690	—	690	690	—	690
COMMITMENTS AND CONTINGENCIES						
ATTRIBUTED EQUITY						
Accumulated other comprehensive income	1,941	644	2,585	563	381	944
Other attributed equity	18,621	124	18,745	19,083	426	19,509
Total attributed equity	20,562	768	21,330	19,646	807	20,453
TOTAL LIABILITIES AND ATTRIBUTED EQUITY	$ 223,300	$ 69,446	$ 292,746	$ 231,305	$ 61,725	$ 293,030

See Notes to Supplemental Combining Financial Information

PRUDENTIAL FINANCIAL, INC.

Supplemental Combining Statements of Operations
Years Ended December 31, 2002 and 2001 (in million)

	2002			2001		
	Financial Services Businesses	Closed Block Business	Consolidated	Financial Services Businesses	Closed Block Business	Consolidated
REVENUES						
Premiums	$ 9,509	$ 4,022	$ 13,531	$ 8,227	$ 4,250	$ 12,477
Policy charges and fee income	1,653	—	1,653	1,803	—	1,803
Net investment income	5,214	3,618	8,832	5,241	3,897	9,138
Realized investment losses, net	(771)	(587)	(1,358)	(128)	(543)	(671)
Commissions and other income	3,949	68	4,017	4,200	124	4,324
Total revenues	19,554	7,121	26,675	19,343	7,728	27,071
BENEFITS AND EXPENSES						
Policyholders' benefits	9,353	4,305	13,658	8,164	4,588	12,752
Interest credited to policyholders' account balances	1,707	139	1,846	1,670	134	1,804
Dividends to policyholders	138	2,506	2,644	89	2,633	2,722
General and administrative expenses	7,535	928	8,463	8,354	992	9,346
Demutualization costs and expenses	—	—	—	588	—	588
Total benefits and expenses	18,733	7,878	26,611	18,865	8,347	27,212
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	821	(757)	64	478	(619)	(141)
Total income tax expense (benefit)	80	(272)	(192)	129	(163)	(34)
INCOME (LOSS) FROM CONTINUING OPERATIONS	741	(485)	256	349	(456)	(107)
DISCONTINUED OPERATIONS						
Loss from discontinued operations, net of taxes	(62)	—	(62)	(47)	—	(47)
NET INCOME (LOSS)	$ 679	$ (485)	$ 194	$ 302	$ (456)	$ (154)

See Notes to Supplemental Combining Financial Information

PRUDENTIAL FINANCIAL, INC.

Notes to 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") separately reporting 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 should be read in conjunction with the 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 former 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.

The Closed Block Business was established on the date of demutualization and includes the assets and liabilities of the Closed Block (see Note 10 to the Consolidated Financial Statements for a description of the Closed Block). It also includes assets held outside the Closed Block necessary to meet insurance regulatory capital requirements related to products included within the Closed Block; deferred policy acquisition costs related to the Closed Block policies; the principal amount of the IHC debt (as discussed in Note 12 to the Consolidated Financial Statements) and related unamortized debt issuance costs and an interest rate swap related to the IHC debt; and certain other related assets and liabilities. For the period prior to the date of demutualization, the results of the Closed Block Business are those of the former Traditional Participating Products segment, which historically sold primarily participating insurance and annuity products that the Company ceased offering in connection with demutualization. A minor portion of the former 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. The Financial Services Businesses consist of the Insurance, Investment, and International Insurance and Investments divisions and Corporate and Other operations.

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 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.

PRUDENTIAL FINANCIAL, INC.

Notes to Supplemental Combining Financial Information

3. ALLOCATION OF RESULTS *(continued)*

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. ATTRIBUTED EQUITY

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.

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.

During the third quarter of 2002, in conjunction with the Company's review of its allocation of deferred taxes between the Closed Block and Financial Services Businesses, it was determined that deferred taxes that had been included in the Closed Block Business should have been reflected within the Financial Services Businesses. Accordingly, deferred taxes of $130 million were transferred from the Closed Block Business to the Financial Services Businesses resulting in a $130 million decrease in "Other attributed equity" of the Financial Services Businesses and a corresponding increase in "Other attributed equity" of the Closed Block Business. The statutory amounts were unaffected.

5. CONTINGENCIES

The results of the Financial Services Businesses are subject to certain risks pertaining to the Closed Block. These include any expenses and liabilities from litigation affecting the Closed Block policies as well as the consequences of certain potential adverse tax determinations. In connection with the sale of the Class B Stock and IHC debt, the cost of indemnifying the investors with respect to certain matters will be borne by the Financial Services Businesses. Prior to the date of the demutualization, a reserve was established with respect to traditional participating policies for which the Company has not received a death claim but where death has occurred. This liability was not taken into account in establishing the Closed Block and, consequently, became a liability of the Financial Services Businesses upon demutualization. Any subsequent adjustment of the reserve, upward or downward, is included in the results of the Financial Services Businesses. Results of the Financial Services Businesses also include the cost of supplemental benefits paid to policyholders that the Company had previously agreed to provide insurance for reduced or no premium in accordance with contractual settlements related to prior sales practices remediation.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Certain information called for by this item is hereby incorporated herein by reference to the sections entitled "Item 1—Election of Class II Directors," "Nominees for Class II Directors for Terms To Expire in 2006," "Continuing Class I Directors Whose Terms Expire in 2005," "Continuing Class III Directors Whose Terms Expire in 2004" and "Compliance with Section 16(a) of the Exchange Act" in the Registrant's definitive proxy statement for the Annual Meeting of Shareholders to be held on June 3, 2003, to be filed by the Registrant with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the year ended December 31, 2002. Additional information called for by this item is contained in Item 1A of this Annual Report on Form 10-K under the caption "Executive Officers."

ITEM 11. EXECUTIVE COMPENSATION

The information called for by this item is hereby incorporated herein by reference to the sections entitled "Compensation of Directors," "Compensation Committee Interlocks and Insider Participation," "Compensation of Executive Officers," "Summary Compensation Table," "Retirement Plans," "Prudential Severance and Senior Executive Severance Plan; Change of Control Program," "Long-Term Compensation Table" and "Option Grant Table," in the Registrant's definitive proxy statement for the Annual Meeting of Shareholders to be held on June 3, 2003, to be filed by the Registrant with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the year ended December 31, 2002.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information called for by this item is hereby incorporated herein by reference to the sections entitled "Voting Securities and Principal Holders Thereof" and "Equity Compensation Plan Table" in the Registrant's definitive proxy statement for the Annual Meeting of Shareholders to be held on June 3, 2003, to be filed by the Registrant with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the year ended December 31, 2002.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for by this item is hereby incorporated herein by reference to the section entitled "Certain Relationships and Related Transactions" in the Registrant's definitive proxy statement for the Annual Meeting of Shareholders to be held on June 3, 2003, to be filed by the Registrant with the Securities and Exchange Commission pursuant to Regulation 14A within 120 days after the year ended December 31, 2002.

ITEM 14. CONTROLS AND PROCEDURES

Within the 90-day period prior to the filing of this report, an evaluation was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rule 13a-14(c) under the Securities Exchange Act of 1934. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective. No significant changes were made in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

	Page Number
(a) The following documents are filed as part of this report:	
1. Financial Statements—Item 8. Financial Statements and Supplementary Data	136
2. Financial Statement Schedules:	
Schedule I—Summary of Investments Other Than Investments in Related Parties	214
Schedule II—Condensed Financial Information of Registrant	215
Schedule III—Supplementary Insurance Information	219
Schedule IV—Reinsurance	222
Schedule V—Valuation and Qualifying Accounts	223
Any remaining schedules are omitted because they are inapplicable.	

3. Exhibits:

2.1	Plan of Reorganization. Incorporated by reference to Exhibit 2.1 to Prudential Financial, Inc.'s Registration Statement on Form S-1 (No. 333-58524) (the "Registration Statement").
3.1	Form of Amended and Restated Certificate of Incorporation of Prudential Financial, Inc. Incorporated by reference to Exhibit 3.1 to the Registration Statement.
3.2	Form of By-laws of Prudential Financial, Inc. Incorporated by reference to Exhibit 3.2 to the Registration Statement.
4.1	Form of certificate for the Common Stock of Prudential Financial, Inc., par value $.01 per share. Incorporated by reference to Exhibit 4.1 to the Registration Statement.
4.2	Form of Shareholders' Rights Plan. Incorporated by reference to Exhibit 4.2 to the Registration Statement.
4.3	Upon the request of the Securities and Exchange Commission, the Registrant will furnish copies of all instruments defining the rights of holders of long-term debt of the Registrant.
4.4	Inter-Business Transfer and Allocation Policies relating to the Financial Services Businesses and the Closed Block Business. Incorporated by reference to Exhibit 4.6 to the Registration Statement.
10.1	Support Agreement between The Prudential Insurance Company of America and Prudential Funding Corporation dated as of March 18, 1982. Incorporated by reference to Exhibit 10.1 to the Registration Statement.
10.2	Stipulation of Settlement—United States District Court for the District of New Jersey, in re: The Prudential Insurance Company of America Sales Practices Litigation, MDL No. 1061, Master Docket No. 95-4704 (AMW) (Document dated October 28, 1996). Incorporated by reference to Exhibit 10.2 to the Registration Statement.
10.3	Amendment to Stipulation of Settlement—United States District Court for the District of New Jersey, in re: The Prudential Insurance Company of America Sales Practices Litigation MDL No. 1061, Master Docket No. 95-4704 (AMW) (Original filed February 24, 1997) (Document dated February 22, 1997). Incorporated by reference to Exhibit 10.3 to the Registration Statement.
10.4	The Prudential Insurance Company of America Deferred Compensation Plan. Incorporated by reference to Exhibit 10.4 to the Registration Statement.
10.5	The Prudential Deferred Compensation Plan for Non-Employee Directors. Incorporated by reference to Exhibit 10.5 to the Registration Statement.

10.6	The Pension Plan for Non-Employee Directors of The Prudential Insurance Company of America. Incorporated by reference to Exhibit 10.6 to the Registration Statement.
10.7	2001 Prudential Long-Term Performance Unit Plan. Incorporated by reference to Exhibit 10.7 to the Registration Statement.
10.8	2000 Prudential Long-Term Performance Unit Plan. Incorporated by reference to Exhibit 10.8 to the Registration Statement.
10.9	1999 Prudential Long-Term Performance Unit Plan. Incorporated by reference to Exhibit 10.9 to the Registration Statement.
10.10	2002 Prudential Long-Term Performance Unit Plan. Incorporated by reference to Exhibit 10.1 to the June 30, 2002 Quarterly Report on Form 10-Q.
10.11	Prudential Financial, Inc. Stock Option Plan. Incorporated by reference to Exhibit 10.2 to the June 30, 2002 Quarterly Report on Form 10-Q.
10.12	The Prudential Supplemental Retirement Plan. Incorporated by reference to Exhibit 10.3 to the June 30, 2002 Quarterly Report on Form 10-Q.
10.13	The Prudential Supplemental Employee Savings Plan. Incorporated by reference to Exhibit 10.4 to the June 30, 2002 Quarterly Report on Form 10-Q.
10.14	The Prudential Severance Plan for Senior Executives. Incorporated by reference to Exhibit 10.5 to the June 30, 2002 Quarterly Report on Form 10-Q.
10.15	The Prudential Insurance Supplemental Executive Retirement Plan. Incorporated by reference to Exhibit 10.6 to the June 30, 2002 Quarterly Report on Form 10-Q.
10.16	The Prudential Deferred Compensation Plan for Non-employee Directors. Incorporated by reference to Exhibit 10.1 to the September 30, 2002 Quarterly Report on Form 10-Q.
10.17	2002 Prudential Long-Term Performance Unit Plan. Incorporated by reference to Exhibit 10.2 to the September 30, 2002 Quarterly Report on Form 10-Q.
10.18	Prudential Financial, Inc. Compensation Plan.
10.19	The Prudential Deferred Compensation Plan for Non-Employee Directors.
10.20	Retail Brokerage Company Formation Agreement by and between Wachovia Corporation and Prudential Financial, Inc.
10.21	Form of Limited Liability Company Agreement of Wachovia/Prudential Financial Advisors LLC.
10.22	Prudential Severance Plan for Senior Executives.
10.23	Summary of Retirement Separation Agreement for Jean Hamilton.
12.1	Statement of Ratio of Earnings to Fixed Charges.
21.1	Subsidiaries of the Prudential Financial, Inc.
23.1	Consent of PricewaterhouseCoopers LLP.
24.1	Powers of Attorney.

(b) Reports on Form 8-K

During the three months ended December 31, 2002, the following Current Reports on Form 8-K were filed or furnished by the Company:

1. Current Report on Form 8-K, October 3, 2002, filing a press release indicating it is exploring options for its personal lines property and casualty business.
2. Current Report on Form 8-K, October 11, 2002, filed a statement regarding the Court decision of Dale Burns et al. vs. PSI and Jeffrey Pickett.
3. Current Report on Form 8-K, October 21, 2002, furnishing a Financial Supplement for the quarterly period ended June 30, 2002, presenting historical information for the Financial Services Businesses on a basis consistent with the Company's organizational changes announced in August 2002.
4. Current Report on Form 8-K, November 5, 2002, filing (i) press release announcing third quarter 2002 results and furnishing (ii) the Quarterly Financial Supplement for its Financial Services Businesses for the quarterly period ended September 30, 2002.
5. Current Report on Form 8-K, November 12, 2002, filing a press release announcing that its Board of Directors had declared an annual dividend for 2002 for its Common Stock.
6. Current Report on Form 8-K, November 14, 2002, furnishing (i) and (ii) the certifications of chief executive and financial officers required pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
7. Current Report on Form 8-K, November 25, 2002, furnishing a statement regarding Prudential-Bache International, a subsidiary of the Company, announcing intentions to shift the strategy and structure of its international securities operations.
8. Current Report on Form 8-K, December 4, 2002, furnishing a copy of the slides presented at its Investor Day conference held on December 4, 2002.
9. Current Report on Form 8-K, December 4, 2002, furnishing a press release announcing its 2003 earnings guidance.
10. Current Report on Form 8-K, December 19, 2002, filing a statement announcing that the Company had entered into a definitive Stock Purchase Agreement with Skandia Insurance Company Ltd., pursuant to which the Company will acquire Skandia U.S. Inc. and furnishing the related press release.

Table of Contents

PRUDENTIAL FINANCIAL, INC.
Schedule I
Summary of Investments Other Than Investments in Related Parties
As of December 31, 2002 (in millions)

Type of Investment	Cost(1)	Value	Amount at Which Shown in the Balance Sheet
Fixed maturities, available for sale:			
Bonds:			
United States Government and government agencies and authorities	$ 8,323	$ 8,986	$ 8,986
States, municipalities and political subdivisions	1,962	2,174	2,174
Foreign governments	21,158	22,472	22,472
Mortgage-backed securities	7,581	7,866	7,866
Public utilities	11,001	11,830	11,830
Convertibles and bonds with warrants attached	6	6	6
All other corporate bonds	67,335	71,581	71,581
Certificates of deposit	359	392	392
Redeemable preferred stock	144	156	156
Total fixed maturities, available for sale	$117,869	$125,463	$ 125,463
Fixed maturities, held to maturity:			
Bonds:			
United States Government and government agencies and authorities	$ —	$ —	$ —
States, municipalities and political subdivisions	3	3	3
Foreign governments	103	106	103
Mortgage-backed securities	2,232	2,287	2,232
Public utilities	—	—	—
Convertibles and bonds with warrants attached	—	—	—
All other corporate bonds	274	277	274
Certificates of deposit	—	—	—
Redeemable preferred stock	—	—	—
Total fixed maturities, held to maturity	$ 2,612	$ 2,673	$ 2,612
Equity securities:			
Common Stocks:			
Public utilities	$ 94	$ 93	$ 93
Banks, trust and insurance companies	232	219	219
Industrial, miscellaneous and other	2,465	2,434	2,434
Nonredeemable preferred stocks	58	61	61
Total equity securities	$ 2,849	$ 2,807	$ 2,807
Commercial loans (2)	$ 19,287		$ 19,287
Policy loans	8,827		8,827
Cash collateral for borrowed securities	4,978		4,978
Securities purchased under agreements to resell	4,844		4,844
Trading account assets (3)	3,449		3,449
Short-term investments	5,419		5,419
Other long-term investments	5,408		5,408
Total investments	$175,542		$ 183,094

(1) Original cost of equities and, as to fixed maturities, original cost reduced by repayments and adjusted for amortization of premiums and accretion of discounts.
(2) Includes mortgage loans of $17,441 million and Gibraltar Life uncollateralized loans of $1,846 million.
(3) At fair value.

PRUDENTIAL FINANCIAL, INC.
Schedule II
Condensed Financial Information of Registrant
Condensed Statements of Financial Position
December 31, 2002 and 2001 (in millions)

	2002	2001
ASSETS		
Total investments	$ 203	$ 197
Cash and cash equivalents	1,615	4,234
Due from subsidiaries	3	198
Loans receivable from subsidiaries	1,030	1,091
Investment in subsidiaries	22,068	19,565
Other assets	24	31
TOTAL ASSETS	$ 24,943	$ 25,316
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Due to subsidiaries	$ 546	$ 4
Loans payable to subsidiaries	1,761	1,761
Other liabilities	1,306	3,098
Total liabilities	3,613	4,863
STOCKHOLDERS' EQUITY		
Preferred Stock ($0.01 par value; 10,000,000 shares authorized; none issued)	—	—
Common Stock ($.01 par value; 1,500,000,000 shares authorized; 584,511,144 and 583,582,767 shares issued at December 31, 2002 and 2001, respectively)	6	6
Class B Stock ($0.01 par value; 10,000,000 shares authorized; 2,000,000 shares issued and outstanding at December 31, 2002 and 2001)	—	—
Additional paid-in capital	19,513	19,462
Common Stock held in treasury, at cost (24,283,271 shares at December 31, 2002)	(743)	—
Deferred compensation	(21)	—
Accumulated other comprehensive income	2,585	944
Retained earnings (deficit)	(10)	41
Total stockholders' equity	21,330	20,453
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 24,943	$ 25,316

PRUDENTIAL FINANCIAL, INC.
Schedule II
Condensed Financial Information of Registrant
Condensed Statements of Operations For the Year Ended December 31, 2002 and the Period From December 18, 2001 Through December 31, 2001 (in millions)

	2002	December 18, 2001 through December 31, 2001
REVENUES		
Net investment income	$ 45	$ 4
Realized investment gains, net	57	6
Affiliated interest revenue	28	1
Total revenues	130	11
EXPENSES		
General and administrative expenses	163	10
Affiliated interest expense	67	2
Total expenses	230	12
LOSS BEFORE INCOME TAXES AND EQUITY IN EARNINGS OF SUBSIDIARIES	(100)	(1)
Income taxes:		
Current	(52)	(1)
Deferred	6	3
Total income tax expense (benefit)	(46)	2
LOSS BEFORE EQUITY IN EARNINGS OF SUBSIDIARIES	(54)	(3)
EQUITY IN EARNINGS OF SUBSIDIARIES	248	44
NET INCOME	$ 194	$ 41

PRUDENTIAL FINANCIAL, INC.
Schedule II
Condensed Financial Information of Registrant
Condensed Statements of Cash Flows For the Year Ended December 31, 2002 and the Period From December 18, 2001 Through December 31, 2001 (in millions)

	2002	December 18, 2001 through December 31, 2001
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 194	$ 41
Adjustments to reconcile net income to cash provided by operating activities:		
Equity in earnings of subsidiaries	(248)	(44)
Realized investment gains, net	(57)	(6)
Dividends received from subsidiaries	501	2,254
Change in:		
Due to/from subsidiaries, net	737	(194)
Other, net	127	(7)
Cash flows from operating activities	1,254	2,044
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital contributions to subsidiaries	(1,278)	(1,760)
Returns of capital contributions from subsidiaries	323	—
Loans to subsidiaries	61	(1,091)
Short-term investments	7	(185)
Payments for the purchase of long-term investments	—	(12)
Cash flows used in investing activities	(887)	(3,048)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash payments to eligible policyholders	(2,069)	—
Cash dividends paid on Common Stock	(173)	—
Cash dividends paid on Class B Stock	(19)	—
Treasury stock acquired	(726)	—
Treasury stock reissued for exercise of stock options	1	—
Loans from subsidiaries	—	1,734
Proceeds from the issuance of Common Stock	—	3,337
Proceeds from the issuance of Class B Stock	—	167
Cash flows from (used in) financing activities	(2,986)	5,238
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,619)	4,234
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	4,234	—
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 1,615	$ 4,234
NON-CASH TRANSACTIONS DURING THE PERIOD		
Cash demutualization consideration payable to eligible policyholders	$ —	$ 3,060

Notes to Condensed Financial Information of Registrant

Prudential Financial, Inc. was incorporated on December 28, 1999 as a wholly owned subsidiary of The Prudential Insurance Company of America. On December 18, 2001, The Prudential Insurance Company of America converted from a mutual life insurance company to a stock life insurance company and became an indirect, wholly owned subsidiary of Prudential Financial, Inc.

Dividends and returns of capital received by Prudential Financial, Inc. during the year ended December 31, 2002 amounted to $824 million, including $308 million received from Prudential Asset Management Holding Company, $169 million from Prudential Holdings, LLC, $163 million from Prudential Japan Holding Company, Inc., and $160 million collectively from Prudential Property and Casualty Insurance Company of New Jersey and Prudential Property and Casualty Insurance Company. Dividends received by Prudential Financial, Inc. during the period December 18, 2001 through December 31, 2001 amounted to $2,254 million, including $1,218 million received from Prudential Holdings, LLC, as discussed in Note 12 to the Consolidated Financial Statements.

During 2002, Prudential Financial, Inc. issued a subordinated guarantee covering a subsidiary's domestic commercial paper program. As of December 31, 2002, there was $1.3 billion outstanding under this commercial paper program.

In December 2002, Prudential Financial, Inc. entered into a definitive Stock Purchase Agreement with Skandia Insurance Company Ltd. ("Skandia"), an insurance company based in Sweden, pursuant to which Prudential Financial, Inc. will acquire Skandia U.S. Inc., a Delaware corporation ("Skandia U.S."), from Skandia. The total consideration payable in the transaction includes a cash purchase price of $1.15 billion and the assumption of a $115 million liability, subject to certain purchase price adjustments. The transaction, which is expected to close in the second quarter of 2003, is subject to various closing conditions, including, among others, regulatory approvals, filing under the Hart-Scott-Rodino Antitrust Improvements Act and approval by the boards of directors and shareholders of the mutual funds advised by Skandia U.S.'s subsidiaries. The acquisition is expected to be funded using the cash and borrowing capacity of Prudential Financial, Inc.

PRUDENTIAL FINANCIAL, INC.
Schedule III
Supplementary Insurance Information
As of and for the Year Ended December 31, 2002 (in millions)

Segment	Deferred Policy Acquisition Costs	Future Policy Benefits, Losses, Claims, Expenses	Unearned Premium	Other Policy Claims and Benefits Payable	Premiums, Policy Charges and Fee Income	Net Investment Income	Benefits, Claims, Losses and Settlement Expenses	Amortization of DAC	Other Operating Expenses	Premiums Written
Individual Life and Annuities	$ 3,583	$ 2,740	$ —	$ 10,201	$ 1,674	$ 833	$ 1,229	$ 485	$ 585	$ —
Group Insurance	57	3,299	132	4,893	2,973	578	2,938	(2)	491	—
Property and Casualty Insurance	132	1,782	654	—	2,048	158	1,604	387	208	2,080
Insurance Division	3,772	7,821	786	15,094	6,695	1,569	5,771	870	1,284	2,080
Investment Management	—	—	—	—	—	30	—	72	1,024	—
Financial Advisory	—	—	—	—	—	175	—	—	2,496	—
Retirement	28	12,835	—	16,252	148	2,074	1,857	14	340	—
Other Asset Management	—	—	—	—	—	30	—	—	45	—
Investment Division	28	12,835	—	16,252	148	2,309	1,857	86	3,905	—
International Insurance	2,158	23,586	45	10,355	4,341	682	3,390	233	709	—
International Investments	—	—	—	—	—	37	—	1	336	—
International Insurance and Investments Division	2,158	23,586	45	10,355	4,341	719	3,390	234	1,045	—
Corporate and Other	(83)	561	7	16	(22)	617	180	(85)	196	—
Total Financial Services Businesses	5,875	44,803	838	41,717	11,162	5,214	11,198	1,105	6,430	2,080
Closed Block Business	1,156	48,247	—	8,238	4,022	3,618	6,950	162	766	—
Total	$ 7,031	$ 93,050	$ 838	$ 49,955	$ 15,184	$ 8,832	$ 18,148	$ 1,267	$ 7,196	$ 2,080

PRUDENTIAL FINANCIAL, INC.
Schedule III
Supplementary Insurance Information
As of and for the Year Ended December 31, 2001 (in millions)

Segment	Deferred Policy Acquisition Costs	Future Policy Benefits, Losses, Claims, Expenses	Unearned Premium	Other Policy Claims and Benefits Payable	Premiums, Policy Charges and Fee Income	Net Investment Income	Benefits, Claims, Losses and Settlement Expenses	Amortization of DAC	Other Operating Expenses	Premiums Written
Individual Life and Annuities	$ 3,761	$ 2,536	$ —	$ 8,878	$ 1,692	$ 831	$ 1,206	$ 353	$ 769	$ —
Group Insurance	27	3,160	124	4,029	2,676	547	2,714	4	460	—
Property and Casualty Insurance	132	1,748	622	—	1,884	158	1,334	395	227	1,925
Insurance Division	3,920	7,444	746	12,907	6,252	1,536	5,254	752	1,456	1,925
Investment Management	—	—	—	—	—	42	—	76	1,140	—
Financial Advisory	—	—	—	—	—	256	—	—	2,887	—
Retirement	66	12,317	—	15,372	100	2,148	1,883	3	384	—
Other Asset Management	—	—	—	—	—	45	—	—	50	—
Investment Division	66	12,317	—	15,372	100	2,491	1,883	79	4,461	—
International Insurance	1,615	22,005	44	10,541	3,644	450	2,746	163	626	—
International Investments	—	—	—	—	—	33	—	1	343	—
International Insurance and Investments Division	1,615	22,005	44	10,541	3,644	483	2,746	164	969	—
Corporate and Other	(63)	592	12	49	34	731	40	(82)	1,143	—
Total Financial Services Businesses	5,538	42,358	802	38,869	10,030	5,241	9,923	913	8,029	1,925
Closed Block Business	1,330	47,239	—	6,560	4,250	3,897	7,355	213	779	—
Total	$ 6,868	$ 89,597	$ 802	$ 45,429	$ 14,280	$ 9,138	$ 17,278	$ 1,126	$ 8,808	$ 1,925

PRUDENTIAL FINANCIAL, INC.
Schedule III
Supplementary Insurance Information
As of and for the Year Ended December 31, 2000 (in millions)

Segment	Deferred Policy Acquisition Costs	Future Policy Benefits, Losses, Claims, Expenses	Unearned Premium	Other Policy Claims and Benefits Payable	Premiums, Policy Charges and Fee Income	Net Investment Income	Benefits, Claims, Losses and Settlement Expenses	Amortization of DAC	Other Operating Expenses	Premiums Written
Individual Life and Annuities	$ 3,772	$ 2,336	$ —	$ 8,439	$ 1,649	$ 845	$ 1,192	$ 299	$ 987	$ —
Group Insurance	12	2,822	113	3,546	2,291	485	2,242	1	400	—
Property and Casualty Insurance	137	1,837	577	—	1,599	193	1,045	365	240	1,597
Insurance Division	3,921	6,995	690	11,985	5,539	1,523	4,479	665	1,627	1,597
Investment Management	—	—	—	—	—	28	—	79	1,183	—
Financial Advisory	—	—	—	—	—	310	—	—	3,001	—
Retirement	76	12,581	—	15,338	149	2,307	1,986	21	461	—
Other Asset Management	—	—	—	—	—	30	—	—	24	—
Investment Division	76	12,581	—	15,338	149	2,675	1,986	100	4,669	—
International Insurance	1,425	4,536	—	131	1,772	129	1,268	145	211	—
International Investments	—	—	—	—	—	32	—	1	378	—
International Insurance and Investments Division	1,425	4,536	—	131	1,772	161	1,268	146	589	—
Corporate and Other	(33)	574	18	88	5	948	38	(84)	1,590	—
Total Financial Services Businesses	5,389	24,686	708	27,542	7,465	5,307	7,771	827	8,475	1,597
Closed Block Business	1,674	46,014	—	6,643	4,355	4,172	7,344	269	923	—
Total	$ 7,063	$ 70,700	$ 708	$ 34,185	$ 11,820	$ 9,479	$ 15,115	$ 1,096	$ 9,398	$ 1,597

PRUDENTIAL FINANCIAL, INC.
Schedule IV
Reinsurance
For the Years Ended December 31, 2002, 2001 and 2000 (in millions)

	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
2002					
Life Insurance Face Amount In Force	$ 1,782,053	$ 108,633	$ 18,735	$ 1,692,155	1.1%
Premiums:					
Life Insurance	$ 11,541	$ 705	$ 61	$ 10,897	0.6%
Accident and Health Insurance	597	15	4	586	0.7%
Property & Liability Insurance	2,068	69	49	2,048	2.4%
Total Premiums	$ 14,206	$ 789	$ 114	$ 13,531	0.8%
2001					
Life Insurance Face Amount In Force	$ 1,756,021	$ 86,792	$ 12,017	$ 1,681,246	0.7%
Premiums:					
Life Insurance	$ 10,635	$ 602	$ 45	$ 10,078	0.4%
Accident and Health Insurance	529	17	3	515	0.6%
Property & Liability Insurance	1,902	65	47	1,884	2.5%
Total Premiums	$ 13,066	$ 684	$ 95	$ 12,477	0.8%
2000					
Life Insurance Face Amount In Force	$ 1,324,453	$ 72,044	$ 6,866	$ 1,259,275	0.5%
Premiums:					
Life Insurance	$ 8,529	$ 483	$ 42	$ 8,088	0.5%
Accident and Health Insurance	506	15	3	494	0.6%
Property & Liability Insurance	1,651	93	41	1,599	2.6%
Total Premiums	$ 10,686	$ 591	$ 86	$ 10,181	0.8%

PRUDENTIAL FINANCIAL, INC.
Schedule V
Valuation and Qualifying Accounts
For the Years Ended December 31, 2002, 2001 and 2000 (in millions)

Description	Balance at Beg. of Period	Additions: Charged to Costs and Expenses	Additions: Charged to Other Accounts	Deductions	Balance at End of Period
2002					
Allowance for losses on commercial loans	$ 535	$ —	$ 18(a)	$ 71(b)	$ 482
Valuation allowance on deferred tax asset	77	51	—	10(c)	118
	$ 612	$ 51	$ 18	$ 81	$ 600
2001					
Allowance for losses on commercial loans	$ 225	$ —	$ 746(d)	$ 436(e)	$ 535
Valuation allowance on deferred tax asset	38	39	—	—	77
	$ 263	$ 39	$ 746	$ 436	$ 612
2000					
Allowance for losses on commercial loans	$ 221	$ 17	$ —	$ 13(f)	$ 225
Valuation allowance on deferred tax asset	24	18	—	4(g)	38
	$ 245	$ 35	$ —	$ 17	$ 263

(a) Represents change in foreign exchange rates.
(b) Represents $42 million of deductions related to Gibraltar Life and $29 million due to change in foreign exchange rates.
(c) Represents utilization of net operating losses.
(d) Represents $739 million acquired from Gibraltar Life and $7 million due to change in foreign exchange rates.
(e) Represents $24 million of release of allowance for losses and $412 million of charge-offs, net of recoveries.
(f) Represents charge-offs, net of recoveries.
(g) Represents utilization of foreign tax credits.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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, in the city of Newark, and state of New Jersey, on the 14th day of March, 2003.

Prudential Financial, Inc.

By: /s/ RICHARD J. CARBONE
Name: Richard J. Carbone
Title: Senior Vice President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 14, 2003:

Name	Title
/s/ ARTHUR F. RYAN **Arthur F. Ryan**	Chairman, Chief Executive Officer, President and Director
/s/ RICHARD J. CARBONE **Richard J. Carbone**	Chief Financial Officer (Principal Financial Officer)
/s/ ANTHONY S. PISZEL **Anthony S. Piszel**	Controller (Principal Accounting Officer)
FRANKLIN E. AGNEW* **Franklin E. Agnew**	Director
FREDERIC K. BECKER* **Frederic K. Becker**	Director
GILBERT F. CASELLAS* **Gilbert F. Casellas**	Director
JAMES G. CULLEN* **James G. Cullen**	Director
ALLAN D. GILMOUR* **Allan D. Gilmour**	Director
WILLIAM H. GRAY, III* **William H. Gray, III**	Director
JON F. HANSON* **Jon F. Hanson**	Director
GLEN H. HINER* **Glen H. Hiner**	Director
CONSTANCE J. HORNER* **Constance J. Horner**	Director

Name	Title
BURTON G. MALKIEL*	Director
Burton G. Malkiel	
IDA F. S. SCHMERTZ*	Director
Ida F. S. Schmertz	
RICHARD M. THOMSON*	Director
Richard M. Thomson	
JAMES A. UNRUH*	Director
James A. Unruh	
STANLEY C. VAN NESS*	Director
Stanley C. Van Ness	

By:* /S/ RICHARD J. CARBONE

Attorney-in-fact

CERTIFICATIONS

I, Arthur F. Ryan, certify that:

1. I have reviewed this annual report on Form 10-K of Prudential Financial, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 14, 2003

By: /s/ ARTHUR F. RYAN

Arthur F. Ryan
Chief Executive Officer

I, Richard J. Carbone, certify that:

1. I have reviewed this annual report on Form 10-K of Prudential Financial, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

   a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;

   b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and

   c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

   b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this annual report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 14, 2003

By: /s/ RICHARD J. CARBONE

Richard J. Carbone
Chief Financial Officer

Exhibit 10.18

PRUDENTIAL FINANCIAL, INC.

COMPENSATION PLAN

ARTICLE 1
PURPOSE

The purpose of the "Prudential Financial, Inc. Compensation Plan" (the "Plan") is to foster and promote the long-term financial success of Prudential Financial, Inc. (the "Company") and its Affiliates and materially increase shareholder value by providing market-sensitive programs (e.g., base salary and annual incentive compensation) to Eligible Employees of the Company and its Affiliates that attract and reward highly qualified employees; align with critical business goals and objectives; link to the performance results relevant to the business segment and the Company; retain top performers; pay for results and differentiate levels of performance; and foster contributions that promote Company success.

Effective as of March 11, 2003 (the "Effective Date"), the Plan is hereby adopted.

ARTICLE 2
DEFINITIONS

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

Administrative Guidelines. "Administrative Guidelines" means the guidelines and information for exercising duties and responsibilities under this Plan as approved by the Senior Vice President, as described in Section 5.01.

Affiliate. "Affiliate" 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, but excluding any such entity that is excluded from participation in the Plan by the Senior Vice President in his or her sole discretion. "Affiliate" also means any corporation or partnership in which the Company owns, directly or indirectly, 50% or less 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, provided that any such entity is included in the Plan by the Senior Vice President in his or her sole discretion.

Annual Incentive Award. "Annual Incentive Award" shall have the meaning set forth in Section 4.03(b)(2).

Base Pay. "Base Pay" shall have the meaning set forth in Section 4.03(b)(1).

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

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

Committee. Generally, the term "Committee" means the Compensation Committee of the Board or such other committee of the Board as the Board shall designate from time to time. For purposes of any Base Pay or Annual Incentive Award decisions related to Covered Employees under this Plan or the Omnibus Incentive Plan, the Committee shall consist of two or more members of the Board, each of whom shall be a "Non Employee Director" within the meaning of Rule 16b-3, as promulgated under the Securities Exchange Act of 1934 (as amended), an "outside director" within the meaning of section 162(m) of the Code, and an "independent director" under Section 303A of the New York Stock Exchange's Listed Company Manual, or any successors thereto.

Company. "Company" means Prudential Financial, Inc., a New Jersey corporation, and any successor thereto. Prior to December 18, 2001, "Company" means The Prudential Insurance Company of America

Covered Employee. "Covered Employee" means any Eligible Employee of the Company or its Affiliates who is deemed to be a "covered employee" for purposes of Code section 162(m).

Effective Date. "Effective Date" generally means March 11, 2003, or as designated by the Senior Vice President for particular Eligible Employees or categories of Eligible Employee.

Eligible Employee. "Eligible Employee" means any U.S.-based regular full-time and regular part-time (but not temporary) employee of the Company or any Affiliate as follows:

(a) Home Office Employees.

(b) Field Service Staff Employees.

"Eligible Employee" in no event, however, shall include any of the following:

(1) Prudential Representatives.

(2) Prudential Field Management-Prudential Insurance and Financial Services Employees.

(3) Prudential Field Management-Prudential Preferred Financial Services Employees.

(4) Senior Life Representatives.

(5) Special Agents, other than Special Agents whose regular compensation is paid in foreign currency.

(6) Employees who are classified by Prudential as Canadian or International employees.

(7) Retired employees.

(8) Temporary employees and Full-Time employees hired on a temporary basis, including any employee who performs services for the Employer through a temporary employment agency.

(9) Persons employed on a casual or occasional basis.

(10) Persons retained on a monthly fee or per diem basis.

(11) Persons working under the direction of real estate management firms or other contractors.

(12) Employees covered under a collective bargaining agreement, unless the collective bargaining agreement provides for coverage hereunder.

(13) Any person (other than an individual considered an employee under Code section 3121(d)(3)(B) and specifically defined herein as an Eligible Employee) who performs services for the Employer but is not treated by the Employer at the time of the performance of services as an employee for federal tax purposes (regardless of any subsequent recharacterization), including, without limitation:

(A) Premiere Retired Representatives, Agents Emeritus, or Retired Representatives;

(B) Individuals who perform services for the Employer through for which they are compensated through an employee leasing company, temporary employment agency or other third party agency such as, but not limited to, Spherion and Adecco;

(C) Any former employee;

(D) Any individual who would otherwise be considered an employee solely by being part of an affiliated service group, leasing arrangement or other arrangement under Code Sections 414(m), (n) or (o);

(E) An independent contractor.

(14) Or investment professionals.

Job Grade. "Job Grade" means the various grades assigned to Eligible Employees under Section 4.02.

Manager. "Manager" means the officer of the Company or its Affiliate who is responsible for supervising, directing and evaluating the work of an Eligible Employee. In the case of Job Grades 1 through 4 who are at least the rank of Senior Vice President (including, but not limited to, Covered Employees), the Committee shall be considered the Manager.

Omnibus Incentive Plan. "Omnibus Incentive Plan" means the Prudential Financial, Inc. Omnibus Incentive Plan, as adopted by the Board on March 11, 2003 (and as amended in the future).

Participant. "Participant" shall have the meaning set forth in ARTICLE 3 of the Plan.

Plan Year. "Plan Year" means a period that ends on the last Friday in each December that is also a payday, and begins on the following Monday.

Senior Vice President or SVP. "Senior Vice President" or "SVP" means the most senior Vice President responsible for corporate Human Resources (or the successor to his or her duties relating to corporate Human Resources) or his or her delegate if so provided pursuant to his or her written delegation or written direction.

2.02 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 3
ELIGIBILITY AND PARTICIPATION

Unless otherwise specifically designated by the Senior Vice President or the Committee, all Eligible Employees of the Company and any Affiliate are Participants.

ARTICLE 4
JOB GRADES; POWERS OF THE SENIOR VICE PRESIDENT

4.01 Power to Determine Base Pay, Changes in Base Pay and Annual Incentive Awards. Subject to the terms of the Plan (including, but not limited to Sections 5.01 and 5.02) and Article IX of the Omnibus Incentive Plan (with respect to Annual Incentive Awards for Eligible Employees who are Covered Employees), the Senior Vice President shall have the authority to determine, in his or her sole discretion, each Eligible Employee's Base Pay (including any changes in such Base Pay) as provided in Section 4.03(b)(1) of the Plan, and each Eligible Employee's Annual Incentive Awards as provided in Section 4.03(b)(2) of the Plan.

4.02 Job Grades; Pay Rates; Administrative Guidelines. The Senior Vice President shall have the authority to develop Job Grades and Administrative Guidelines (as further referenced in Section 5.01) for the application of the principles of this Plan and the Senior Vice President's authority.

(a) Initially, there will be 18 Job Grades, with the Chief Executive Officer of the Company designated as Job Grade 1. Each Participant will be assigned a Job Grade, as described in Sections 4.02 and 4.03.

(b) Managers and other appropriate officers of the Company or any Affiliate may make recommendations as to or, if authorized by the Senior Vice President, set the Base Pay (including any changes in Base Pay) and the Annual Incentive Award of any Eligible Employee. The Senior Vice President may accept or reject any recommendation or setting of Base Pay or an Annual Incentive Award in his or her sole discretion. The Senior Vice President, in his or her sole discretion, shall determine the terms and conditions of each change in Base Pay and each Annual Incentive Award at the time of grant. The Senior Vice President may establish different terms and conditions for the Base Pay and/or Annual Incentive Award of different Participants, whether or not granted at different times.

4.03 Determining Pay and Changes in Pay.

(a) Job Grades, and Setting the Minimum and Maximum Pay. Subject to the approval of the Senior Vice President, the Company's Corporate Compensation Department will assign minimum and maximum reference levels of Base Pay, Annual Incentive Award, and total pay to each Job Grade. The reference levels should generally reflect pay patterns in the market based on independent market surveys or surveys by the Company's Corporate Compensation Department, applying techniques and standards that are generally acceptable in the industry. Initially and on a periodic basis, the Company's Corporate Compensation Department will collect and analyze additional market data to determine if any change to the

structure or placement of jobs within the structure is necessary or appropriate to maintain market competitiveness. If necessary or appropriate, structural compensation changes (e.g., increases to Base Pay or Annual Incentive Award minimums and/or maximums) will be made by the Senior Vice President in his or her sole discretion.

(b) Pay. Each Manager will recommend or set each Participant's Base Pay and Annual Incentive Award each year based on the reference levels and the Participant's job performance, as described below. Except as determined by the Senior Vice President in his or her sole discretion, no Eligible Employee in a Job Grade shall be paid outside the minimum or maximum for any type of pay or for total pay for that Job Grade.

(1) Base Pay. Generally, Base Pay is initially set based on the experience, pay history, and past performance of the Participant and based on market data for the applicable job. Increases generally are to be based on market data for the applicable job, the individual performance of the Eligible Employee, the relative performance of the Participant to that of other similarly situated Eligible Employees, Company and/or business unit performance, and budgetary restrictions. A Participant must be employed by the Company or the Affiliate and meet all other eligibility requirements as a Participant, at the time Base Pay increases are effective, to be eligible to receive a Base Pay increase.

(2) Annual Incentive Awards. Generally, Annual Incentive Awards are made within the sole discretion of the Company based on, among other things, (i) Company and/or business unit performance for the applicable Plan Year, which determines the available dollar amounts; (ii) the individual performance of the Participant during the applicable Plan Year; and individual performance relative to other similarly situated Eligible Employees. A Participant must be employed by the Company or the Affiliate and meet all other eligibility requirements as a Participant, on the date the Annual Incentive Award is due to be paid to be eligible to receive the award. There is no accrual or other creation of a right to payment prior to the due date of payment even if the amount of an award is determined with reference to performance over the prior Plan Year or some other period, except as permitted by Section 5.05.

(3) Total Cash Consideration. Generally, the ultimate goal is to review compensation on a total pay basis. Total pay for a particular Plan Year will include the following: (a) the Eligible Employee's Base Pay prior to his or her Base Pay increase (typically granted in March of the Plan Year), if any; (b) the amount of any Base Pay increase (typically granted in March of the Plan Year); and (c) any Annual Incentive Award paid for the previous Plan Year's performance (typically paid in February). Managers shall have a reasonable amount of flexibility in the amount of Base Pay increase and Annual Incentive Award that may be used to achieve the total pay amount that the Manager, subject to review by the Senior Vice President (or the Committee, with respect to Covered Employees), determines best meets the combination of market factors and performance for a Participant.

ARTICLE 5
ADMINISTRATION

5.01 Rules, Interpretations and Determinations. The Plan shall be administered by the Company through decisions made and actions taken by its appropriate officers, including, but not limited to, the Senior Vice President, the Vice President of Total Compensation and/or the Vice President of Corporate Compensation. The Senior Vice President may exercise any authority granted under this plan either directly or in the form of Administrative Guidelines approved by the Senior Vice President. The Senior Vice President shall have full authority to interpret and administer the Plan, to establish, amend, and rescind rules, regulations, and guidelines relating to the Plan, and to provide for conditions deemed necessary or advisable for the administration and interpretation of the Plan to carry out their provisions and purposes. This authority shall include, but not be limited to, adopting special rules or adjustments to Base Pay or Annual Incentive Awards for certain categories of employees or in coordination with any and all other benefit and compensation plans of the Company or any Affiliate to assure compliance with all applicable laws (such as the federal securities laws) or to obtain optimal tax deductibility under the Code (including, but not limited to, Code section 162(m)). All such determinations, interpretations, or other actions made or taken by the Senior Vice President shall be made in his or her sole discretion and shall be final, binding, and conclusive for all purposes and upon all persons.

5.02 Authority for Senior Executives and Covered Employees. Notwithstanding anything in this document to the contrary, in the case of Job Grades 1 through 4 who are at least the rank of Senior Vice President, and whenever authority or discretion must be exercised by the Committee for Covered Employees under the Code, the Committee reserves to itself the authority and discretion granted in this Plan to the Senior Vice President. If this reserved authority does not extend to the SVP, the Chief Executive Officer (CEO) of the Company shall have the authority granted herein to the SVP with respect to the SVP. The Committee and the CEO will coordinate with the SVP and other officers to maintain reasonable consistency in the treatment of Eligible Employees except where the Committee, CEO, or SVP, as appropriate, specifically determines that the facts and circumstances warrant otherwise. In addition, the Base Pay and Annual Incentive Award of any Participant in Job Grades 1 through 4 who is employed by an insurance Affiliate shall be approved or ratified by the Board of Directors of the Company or the appropriate Affiliate, to the extent required by law.

5.03 Agents. The Senior Vice President or 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.

5.04 Delegation of Authority. Notwithstanding anything else contained in the Plan to the contrary herein, the Senior Vice President or the Committee may, if otherwise appropriate, delegate to any employee of the Company or any group of employees of the Company or its Affiliates any portion of their authority and powers under the Plan with respect to Participants. Such delegation shall be subject to such terms or conditions or guidelines as the delegating party shall determine and may be for a limited time or task or for an indefinite period subject only to the delegating party's revocation of the delegation.

5.05 Newly Eligible or Separated Participants. The Senior Vice President shall be entitled to make such rules, determinations and adjustments, as he or she deems appropriate and consistent with the purposes of this Plan, with respect to any Participant who becomes eligible to participate in the Plan after the commencement of a Plan Year or, notwithstanding Section 4.02 (concerning employment on payment due dates), involuntarily separates from service, other than for cause, (such as upon a qualifying severance event under a severance plan of the Company or an Affiliate, or occurrence of total disability) or upon an approved retirement.

ARTICLE 6
AMENDMENT, MODIFICATION, SUSPENSION OR TERMINATION OF PLAN

The 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.

ARTICLE 7
MISCELLANEOUS PROVISIONS

7.01 Transferability of Amounts Payable under the Plan. No amounts payable under the Plan may be transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution or as required by law concerning the garnishment or levy of wages.

7.02 Deferral of Payment. The Senior Vice President may permit a Participant to elect, upon such terms and conditions as the Senior Vice President (or the Company, with respect to any deferred compensation plan) may establish, to defer receipt of Annual Incentive Award payments under the Plan.

7.03 No Guarantee of Employment or Participation. Neither the existence of the Plan nor anything in this Plan shall be deemed to constitute a contract of employment between the Company or any affiliate and any Eligible Employee or Participant, nor shall it constitute or create a right to remain in the employ of the Company or any affiliate for any particular period of time. Employment with the Company and its affiliates is employment at will, and either the employee or the employer may terminate the employment relationship at any time, with or without cause of notice. Except to the extent expressly selected by the Senior Vice President to be a Participant, no person (whether or not an Eligible Employee or a Participant) shall at any time 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.

7.04 Tax Withholding. The Company, the Affiliate or an affiliate shall have the right and power to deduct from all payments or distributions hereunder, or require a Participant to remit to the Company promptly upon notification of the amount due, an amount to satisfy any federal, state, local or foreign taxes or other obligations required by law to be withheld with respect thereto. The Company may defer payments until such requirements are satisfied.

7.05 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, any Affiliate 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, any Affiliate or any affiliate thereof or the Committee or the Senior Vice President not expressly set forth in the Plan.

7.06 Term of Plan .. The Plan shall be effective upon the Effective Date. The Plan shall continue in effect, unless sooner terminated pursuant to ARTICLE 6.

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

7.08 Impact on Benefits. Amounts paid under the Plan shall not be included in an Eligible Employee's compensation for purposes of calculating benefits under any other benefit or compensation plan, program or

arrangement sponsored by the Company or a Affiliate or any other affiliate, unless such plan, program or arrangement expressly provides that amounts paid under the Plan shall be included.

7.09 No Constraint on Corporate Action. Nothing contained in the Plan shall be construed to prevent the Company, any Affiliate 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 amounts payable under this Plan. No employee, beneficiary or other person, shall have any claim against the Company, any Affiliate or any affiliate, as a result of any such action.

7.10 Eligible Employee's Rights Unsecured and Unfunded. The Plan at all times shall be entirely unfunded. No assets of the Company or any Affiliate shall be segregated or earmarked to represent the liability for payments 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 Company or the Affiliate that was the employer of such Eligible Employee. All payments under the Plan shall be made from the general assets of the Company or the Affiliate that was the most recent employer of the Eligible Employee.

7.11 No Guarantee of Benefits. Nothing contained in the Plan shall constitute a guarantee by the Company or an Affiliate or any other person or entity that the assets of the Company or any Affiliate will be sufficient to pay any amount hereunder.

7.12 Plan Not Subject to ERISA. In accordance with the underlying federal regulations, this Plan is a compensation program that is not subject to the provisions of the Employee Retirement Income Security Act of 1974, as amended ("ERISA").

7.13 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.

THE PRUDENTIAL DEFERRED COMPENSATION PLAN FOR NON-EMPLOYEE DIRECTORS

The Prudential Deferred Compensation Plan for Non-Employee Directors (the "Plan") was established by The Prudential Insurance Company of America ("Prudential Insurance"), effective as of July 1, 1974, for the purpose of providing a method of deferring payment to non-employee directors of the Company (the "Non-Employee Directors") of their fees, as fixed from time to time by the Board of Directors of the Company until termination of their services on the Board. The Plan was amended and restated effective as of May 12, 1998. Effective as of January 1, 2002, the Plan was amended to transfer sponsorship from Prudential Insurance to Prudential Financial, Inc. (the "Company") to reflect the change in corporate structure resulting from the demutualization of Prudential Insurance, and the establishment of the Company as the publicly-held parent company of Prudential Insurance as of December 17, 2001. Effective as of September 10, 2002, the Plan has been amended and restated, with such changes generally to be effective as of January 1, 2003 as set forth herein, to provide for the deferral of "Stock Based Fees" and "Cash Based Fees" (as defined below), the provision of certain additional notional investment options under the Plan related to the deferral of such Fees, and to address the suspension of, and "rollover" of accrued amounts under, the Pension Plan (as defined below).

The Plan is intended to be, and shall be administered as, an unfunded plan maintained for the purpose of providing deferred compensation for the Non-Employee Directors and, as such, is not an "employee benefit plan" within the meaning of Title I of ERISA (as defined below). To the degree applicable, the Plan is also intended to comply with the provisions of New Jersey Statutes Annotated 17B:18-52.

ARTICLE I

DEFINITIONS

The following capitalized terms shall have the meanings hereinafter set forth in this Plan:

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

"Cash-Based Fees" shall mean, effective as of January 1, 2003, Fees payable in U.S. currency to the Company's Non-Employee Directors, the amount of which may be periodically amended or modified consistent with the requirements of the By-laws and Statement of Corporate Governance Principles and Practices of the Company.

"Change of Control" shall be deemed to have occurred if any of the following events shall occur:

(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 persons who, at the beginning of such period, were the members of the Board (the "Incumbent Company Directors") 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 to the Board, by a majority of the Incumbent Company Directors then still in office shall be deemed to be an Incumbent Company Director for purposes of this subclause (ii); or

(iii) upon the consummation of a merger, consolidation, share exchange, division, sale or other disposition of all or substantially all of the assets of the Company (a "Company Corporate Event"), immediately following the consummation of which the stockholders of the Company immediately prior to such Company 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 Company Corporate Event, holds more than 25% of the consolidated assets of the Company immediately prior to such Company Corporate Event, provided that no Change of Control shall be deemed to have occurred with respect to any Participant who is employed, immediately following such Company Corporate Event, by any entity in which the policyholders or stockholders of the Company, as the case may be, immediately prior to such Company Corporate Event hold, directly or indirectly, a majority of the Voting Power; or

(iv) any other event occurs which the Board declares to be a Change of Control.

Notwithstanding the foregoing, a Change of Control shall not be deemed to have occurred merely as a result of an underwritten 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.

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

"Committee" means the Committee that has been appointed by the Board of Directors pursuant to Article V of the Plan.

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

"Company" means Prudential Financial, Inc.

"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(c) 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.

"Deferred Compensation Accounts" shall have the meaning set forth in Section 3.1 of the Plan.

"Deferred Stock Units" shall have the meaning set forth in Section 7.1.

"Early Distribution With Penalty" shall have the meaning set forth in Section 4.3.

"Effective Date" means July 1, 1974.

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

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

"Fees" includes all fee income payable to Non-Employee Directors for their service on the Board of Directors, including, but not limited to (i) annual service fees, (ii) meeting fees (including orientation meeting fees), and (iii) compensation that may be payable to such Non-Employee Directors for serving on any of the committees of the Board of Directors. The term "Fees" does not include travel payments that may be made to such Non-Employee Directors as a result of attending orientation meetings of the Board of Directors, payments that constitute reimbursement for expenses incurred by such Non-Employee Director in connection with his or her services to the Board of Directors, nor any fees that may be payable to such Non-Employee Director for service as

a trustee of The Prudential Foundation. Effective January 1, 2003, the term "Fees" shall include both Stock-Based Fees and Cash-Based Fees, unless otherwise noted in this Plan.

"Fixed Units" shall have the meaning set forth in Section 7.1.

"Hardship" means an unanticipated emergency that is caused by an event beyond the control of the Participant or beneficiary, and that would result in severe financial hardship to such Participant or beneficiary.

"Non-Employee Director" means any Director of the Company who is not a salaried officer or employee of either the Company or any entity within the Controlled Group.

"Participant" means a Non-Employee Director of the Company (and, if applicable, their beneficiaries) who have elected to participate in the Plan and thereby defer all or a portion of the Fees to be earned by such Participant in the next applicable Plan Period.

"Pension Plan" means The Pension Plan For Non-Employee Directors Of Prudential Financial, Inc., as suspended by the Company as of December 31, 2002.

"Pension Plan Rollover Deferrals" has the meaning set forth in Section 3.3 (a) (ii).

"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.

"Plan Period" has the following meaning: (a) with respect to the "First Plan Period," the period commencing on July 1, 1974, and terminating on December 31, 1974, and (b) with respect to all subsequent Plan Periods, the period of time commencing on January 1 and terminating on December 31 for all successive calendar years.

"Pre-2003 Fee Deferrals" has the meaning set forth in Section 3.3(a)(i).

"Retirement Date" means the first day of the month following the month in which the Participant terminates his or her services as a Non-Employee Director.

"Secretary" means the Secretary of the Board of Directors and, for purposes of this Plan and various administrative procedures described herein, the term "Secretary" shall also include any member of the Secretary's Department of the Company,

"Stock-Based Fees" shall mean, effective as of January 1, 2003, Fees payable in Common Stock to the Company's Non-Employee Directors, the amount of which may be periodically amended or modified consistent with the requirements of the By-laws and Statement of Corporate Governance Principles and Practices of the Company.

"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.

ARTICLE II

PARTICIPATION REQUIREMENTS

2.1 Eligibility. A Non-Employee Director will be deemed a Participant in the Plan either (a) if he or she elects to defer all or a portion of the Fees to be earned during a Plan Period as provided herein, and/or (b) if such Non-Employee Director has accrued a pension under the terms of the Pension Plan the value of which is to be transferred to this Plan as of such date pursuant to the suspension and subsequent termination of the Pension Plan.

2.2 Elections

(a) General Rules. The election to defer all or a portion of the Participant's Fees for the next Plan Period, as well as the election of the form and timing of any distributions on the Participant's behalf, shall be made by written notice delivered by the Participant to the Secretary not later than the last day of the open trading window under the Company's Personal Securities Trading Policy immediately preceding the first day of such Plan Period. In the case of a Non-Employee Director who first becomes eligible during such Plan Period, such election must be made by written notice not later than thirty (30) days after such Non-Employee Director first becomes eligible; provided, however, that with respect to such initial elections, no Fees attributable to the period before which the election is made and presented to the Secretary are eligible for deferral under this Plan. Each such election shall be irrevocable during such Plan Period and thereafter, except as set forth below.

(b) Amendment of Election Form: Each Participant may, no later than the last day of the year prior to the year of his or her anticipated Retirement Date, amend their election forms for deferrals of Fees related to all Plan Periods (a) to change the previously-elected form of distribution to another distribution form of all distributions under the Plan to another distribution form permitted under Section 4.1, or (b) to change the starting date for commencement of all payments under the Plan to another definitely determinable date on or after such Retirement Date, provided, however that such election shall be made during an open trading window under the Company's Insider Trading Policy.

2.3 Pension Plan Rollover Elections. With respect to any Non-Employee Director not already a Participant, or a current Participant of the Plan who has accrued a pension under the terms of the Pension Plan the value of which is to be transferred to this Plan as of such date pursuant to the suspension and subsequent termination of the Pension Plan, such individuals must, by written notice delivered by the Participant to the Secretary

not later than the last day of the open trading window under the Company's Insider Trading Policy immediately preceding the first day of such Plan Period, elect the form and timing of any distributions on the Participant's behalf with respect to such Pension Plan Rollover Deferrals.

Such election form shall specify, at a minimum, that:

(a) For Participants of the Plan and other Non-Employee Directors who become Participants in this Plan by virtue of such Pension Plan Rollover who are in active service with the Board as of December 31, 2002, the form (lump sum or installment) and timing of any distribution of such Pension Plan Rollover Deferrals as generally provided for under Section 4.1(a) of the Plan; and

(b) For Participants of the Plan and other Non-Employee Directors who become Participants in this Plan by virtue of such Pension Plan Rollover who were in active service with the Board as of December 31, 2001 but had retired from the Board prior to December 31, 2002, such Participants will be permitted to elect only five (5) or ten (10) annual installment payments of such amounts, to commence on or after January 1, 2003.

No other election shall be permitted with respect to such Pension Plan Rollover Deferrals, except as set forth in Section 4.4 below.

ARTICLE III
DEFERRED COMPENSATION ACCOUNTS

3.1 Establishment of Deferred Compensation Accounts. An account shall be established for each Participant which shall be designated as his or her Deferred Compensation Account. Such Account may be suballocated as generally provided for under Section 3.3(a) below as a recordkeeping matter and accounting convenience, but the Company shall not be required to segregate any amounts credited to the Deferred Compensation Accounts in any manner or in any form, except in its sole discretion.

3.2 Crediting of Fees to Deferred Compensation Accounts. Upon the execution of a valid election to defer all or a portion of the Fees attributable to services performed by the Participant in the next Plan Period, such Fees shall be credited to the Participant's Deferred Compensation Accounts in the following manner:

(a) Annual Service Fees: To the degree the Fees deferred by the Participant constitute annual service fees, the amount of the annual service fee to be earned by the Participant for services rendered during the First Plan Period shall be credited in two equal installments on or about the last business day of September

and December in such Plan Period and for services rendered during any other Plan Period shall be credited in four equal installments on or about the last business day of March, June, September, and December in the Plan Period to which such service fee relates to his or her Deferred Compensation Account, subject to the provisions of Section 3.4.

(b) Meeting/Committee Fees: To the degree the Fees deferred by the Participant constitute meeting fees or committee fees, the amount of each fee to be earned by a Participant for attendance at a meeting during a Plan Period shall be credited to his or her Deferred Compensation Account on the last business day of the calendar quarter during the Plan Period when such meeting occurred.

3.3 Earnings Indices and Investment Options for Stock-Based Fees and Cash-Based Fees Within the Deferred Compensation Accounts (Fixed Units and Deferred Stock Units); Allocation Limitations

A Participant's Deferred Compensation Account will be credited with notional interest, earnings (and, where applicable, notional investment gain or loss) that are intended to mirror the investment performance and results of the two notional investment options offered under the Plan and selected by the Participant on the Participation Agreement, subject to the limitations set forth below:

(a) Sub-Allocation of Deferred Compensation Accounts: Amounts credited to each Participant's Deferred Compensation Account shall be identified in the Plan's records as comprised of up to four subaccounts, as follows:

(i) Amounts credited to an applicable Participant's Deferred Compensation Account for Plan Periods ending on December 31, 2002 (including any interest accrued on such balances (the "Pre-2003 Fee Deferrals");

(ii) Amounts credited to an applicable Participant's Deferred Compensation Account as a result of the suspension and subsequent termination of the Pension Plan as of December 31, 2002 (the "Pension Plan Rollover Deferrals");

(iii) Stock-Based Fee Deferrals; and

(iv) Cash-Based Fee Deferrals.

(b) Available Notional Investment Options under the Plan: Effective for Plan Years beginning on or after January 1, 2003, there are two (2) available notional investment options under the Plan – the "Fixed Units" and the "Deferred Stock Units":

(i) Fixed Units: The Fixed Units are intended to mirror the performance of the Fixed Rate Fund, one of the actual investment option available to participants of the Prudential Employee Savings Plan. With respect to

amounts deemed allocated to the Fixed Units under the Plan by any Participant, such amounts will be credited with interest in the same general manner as interest would be credited to amounts invested in the actual Fixed Rate Fund. To the extent that the Fixed Rate Fund is amended, replaced or removed from the Prudential Employee Savings Plan, comparable changes shall be made in the available notional investment option under this Plan, and any such changes shall be communicated to Participants as soon as administratively practicable.

(ii) Deferred Stock Units: The Deferred Stock Units are intended to mirror the performance of shares of Common Stock, with each Deferred Stock Unit the equivalent of one share of Common Stock. With respect to amounts deemed allocated to Deferred Stock Units by any Participant, such amounts will be credited under the Plan as if the Participant had actually purchased shares of Common Stock on the date of such deferral. If dividends on the Common Stock are declared while a Participant holds Deferred Stock Units in his or her Deferred Compensation Account, additional Deferred Stock Units will be credited to such Account in the following manner. First, a notional value equal to the cash value of dividends that would be paid upon the same number of whole shares of Common Stock as the Participant has Deferred Stock Units in his or her Deferred Compensation Account on the dividend crediting date (e.g., the date such dividend is payable) will be calculated. Second, such notional value will be deemed to be allocated to the Participant's Deferred Compensation Account and credited to a corresponding number of Deferred Stock Units to such Account (in whole or fractional units) as of the same date, as soon as administratively practicable.

(c) Allocation Limitations: Generally, a Participant may elect a combination of the two available notional investment options with respect to the amount of Fees deferred under the Plan, subject to the limitations set forth below:

(i) Cash-Based Fees: With respect to any Cash-Based Fee amounts, such amounts (including any earnings) may be allocated to either the Fixed Units or the Deferred Stock Units under the Plan; provided, however, that the Participant's allocation of his or her account must be stated in five percent (5%) increments.

(ii) Stock-Based Fees: With respect to any Stock-Based Fees deferred under the Plan, such amounts (and any notional dividends paid with respect to such amounts) may only be allocated to the Deferred Stock Units under the Plan.

(iii) Pre-2003 Fee Deferrals: With respect to any Pre-2003 Fee Deferrals, such amounts may be allocated to either the Fixed Units or the Deferred Stock Units under the Plan; provided, however, that the Participant's allocation of his or her account must be stated in five percent (5%) increments.

(iv) Pension Plan Rollover Deferrals: With respect to any Pension Plan Rollover Deferrals deferred under the Plan, such amounts (and any notional dividends paid with respect to such amounts) may only be allocated to the Deferred Stock Units under the Plan.

(d) Changing Notional Investment Options: Subject to the allocation limitations set forth in Section 3.3(c) above, a Participant may change how the notional amounts reflected in his or her Account are deemed invested by completing an Account Reallocation Form. Such deemed investment allocations may be changed periodically during an open trading window under the Company's Personal Securities Policy, and in no event more than once per calendar quarter. Changes will be effective the first day of the following month. To the extent that additions to, or subtractions from, the number of indices/notional investment options are made under this Plan, Participants will be asked to complete an Account Reallocation Form to indicate if they wish to reallocate their notional Account balances. In the event no such Form is received, no changes to the Participant's Account will be made except that, in the event a particular notional investment option is eliminated and no Form has been completed, the notional amounts credited in such eliminated option shall be credited under the Fixed Units (or, if such option has been eliminated, a notional investment equivalent to any money market fund option offered under the Prudential Employee Savings Plan) as of the date of such elimination (or as soon as administratively practicable thereafter). The aforementioned allocation limitations apply at all times during which the Participant is in active service as a Non-Employee Director of the Company, and for a period of two (2) years following his or her Retirement Date (or such other period after the Retirement Date as the Committee, in its sole discretion, may impose).

(e) Account Valuation and Reports:

(i) Periodic Account Valuation. For purposes of Deferred Compensation Account recordkeeping, periodic updates of the notional value of each Participant's Deferred Compensation Account (and of the aggregate unfunded liabilities of the Plan as a whole) shall be made at the direction of the Committee (in any event, no less frequently than as of the end of each calendar quarter). With respect to any distribution for a Participant's Account as provided for in Article IV of the Plan, the aggregate value of any such distribution shall be calculated by reference to the notional value of the Account as of the last day of the month prior to the month in which such distribution is either anticipated to commence or has been requested to commence by the Participant (or Beneficiary, as applicable).

(ii) Participant Statements. Quarterly statements illustrating Participant Deferred Compensation Account balances, including any notional gains or losses in such Accounts, shall be made available to Participants as soon as

practicable after the end of each calendar year quarter, in a form and manner prescribed by the Committee.

3.4 Special Rules Governing Deferral of Annual Service Fees. If, prior to the end of the Plan Period, a Participant (a) becomes an employee of the Company or any member of the Controlled Group, (b) ceases for any reason to be a Non-Employee Director, or (c) has elected to defer all or a portion of his or her annual services fees and the effective date of participation by a Participant for any Plan Period is other than the first day thereof, such Participant's Deferred Compensation Account will be credited with that proportion of the annual service fee that the Participant has elected to defer for the full Plan Period which the number of days of his or her participation in the Plan during such Plan Period bears to the total number of days in such Plan Period.

ARTICLE IV
DISTRIBUTIONS FROM THE PLAN

4.1 Timing and Form of Distribution. The Company shall pay to the Participant (or, in the event of the Participant's death, to the Participant's designated beneficiary) a sum equal to the amount then standing to his or her credit in his or her Deferred Compensation Account (plus interest as provided for under Section 3.3 herein), in the following manner:

(a) Normal Form of Benefits—Lump Sum or Installment Payments: Payments shall be made in a lump sum, or in installments (either five (5) or ten (10) annual installments, if the form of distribution is Common Stock or cash, and/or sixty (60) or one hundred twenty (120) monthly installments, if the form of distribution is cash), as elected by the Participant in his or her deferral election form, to begin on either (i) a date prior to the Participant's Retirement Date, provided that such date must be no earlier than the January 1 in the year following the Plan Period during which such Fees would otherwise have been payable to the Participant, (ii) the Participant's Retirement Date, or (iii) such later date as selected by the Participant (provided, however, that in any event, distributions from the Plan must commence in the year such Participant attains age 70 1/2). In the event an installment option is chosen, such installments shall be as nearly equal as practicable and shall continue even if the Participant again serves on the Board of Directors.

Any such distribution provided for under the terms of this Section 4.3(a) will be made in the following forms:

(i) For Deferred Compensation Account balances attributable to Pension Plan Rollover and Stock-Based Fees, the form of distribution shall be Common Stock; and

(ii) For Deferred Compensation Account Balances attributable to Cash-Based Fees or Pre-2003 Fee Deferrals, the form of distribution shall be either cash or Common Stock, at the election of the Participant.

In the event that an installment option has been elected by the Participant, such Participant will have the right during such allocation period to reallocate the amounts yet to be distributed under the Plan among the notional investment options described in and subject to the limits set forth in Article III. Any such reallocation elections shall be made on a form, and under procedures established by the Committee, in its sole discretion.

Notwithstanding the above, if the Participant dies (either before payments commence from the Plan or while such payments are being made), the balance of the Participant's Deferred Compensation Account shall immediately become due and payable in one lump sum in cash to the Participant's beneficiary or, if no beneficiary is designated or then living, to the Participant's estate.

(b) Small Account Balances—Lump Sum Cashout. Notwithstanding the foregoing, in the event the Participant's Deferred Compensation Account balance is ten thousand dollars ($10,000) or less at the time a distribution of the Participant's Deferred Compensation Account balance would commence by reason of the application of this Section, or in the event that a Participant's remaining Account balance after commencement of the installment options provided for above is ten thousand dollars ($10,000) or less, the Committee reserves the right to accelerate the payment of such Participant's Account balance in a lump sum in cash and/or Common Stock (consistent with the general requirements of Section 4.1(a)(i) and (ii) above), notwithstanding the form of benefit payment elected by the Participant under the terms of Article II (for Pension Plan Rollover Deferrals) or Article IV (for all other deferrals), as applicable. For purposes of this Section, a Participant's Account balance shall be valued in accordance with the general provisions of Section 3.3(e).

(c) Annuity Option: A Participant whose Retirement Date occurred on or after January 1, 1989 but before January 1, 1999 had the ability to elect to receive payments in any form of annuity offered in the normal course of business by the Company; provided, however, that the election of such method of payment could not result in the receipt of payments on an annual basis in greater amounts that under a method of payment, if any, previously elected by the Participant. The annuity option provided herein did not involve the transfer by the Company to the Participant of an annuity contract, but merely describes an optional form of payment. Effective January 1, 1999, this distribution option will no longer be available to Participants whose Retirement Date has not occurred as of such date.

4.2 Hardship Distribution. Notwithstanding any other provisions of the Plan, the Committee may determine, in the Committee's sole discretion, to accelerate the payment of amounts accrued in such Participant's Deferred Compensation Account in the event of the Participant incurring a Hardship. For purposes of this Section, the

Committee may only permit the accelerated payment of an amount not to exceed the amount necessary to satisfy the Hardship liability and, in no event, may the Committee permit the payment under the Plan of an amount exceeding the Participant's balance in his or her Deferred Compensation Account as of the date of such withdrawal.

4.3 Early Distribution With Penalty. A request for an Early Distribution With Penalty of the Participant's Deferred Compensation Account balance (not including, for these purposes, any Pension Plan Rollover Amounts) may be made by submitting a Deferred Compensation Withdrawal Form in any Plan Year during an open trading window under the Company's Insider Trading Policy. The Account balance distributed will be reduced by a penalty of ten percent (10%) of the Account. For purposes of any such Early Distribution With Penalty, the Account will be valued as of the last day of the month immediately preceding the date on which the request is received and will be paid in a lump sum, in cash and stock (as provided for under the general provisions of Section 4.1), within thirty (30) days of receipt by the Committee of such Withdrawal Form.

If an Early Distribution With Penalty payment is made, all further deferrals of Fees shall cease for the remainder of the Plan Year and for the subsequent Plan Year.

Any penalty amounts withheld from the Early Distribution With Penalty are taxable income to the Participant, and may be used by the Committee in its sole discretion.

4.4 Distribution on a Change of Control. In the event of a Change of Control, Participants under the Plan will have the ability to make a one-time election to commence payment of their Deferred Compensation Account balance, in whatever manner (lump sum or installment) previously chosen by such Participant, no earlier than the January 1st of the year following the Plan Period during which such Change of Control occurred. Such election shall, consistent with the general provisions of Section 2.2 of the Plan be made by written notice delivered by the Participant to the Secretary not later than five (5) days before the end of such Plan Period**.**

ARTICLE V
ADMINISTRATION OF THE PLAN

5.1 Administration of the Plan. The Board of Directors shall appoint a Committee to administer the Plan, which shall be comprised of the following three persons: the Vice President and Secretary of the Company, the Vice President of Total Compensation of the Company's (or as the case may be, Prudential Insurance's) Human Resources Department, and a Vice President and Corporate Counsel – Financial Management, of the Company's Law Department (with the Vice President and Secretary of the Company serving, where appropriate, as the primary contact for questions related to the Plan's operation by Participants). 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.

5.2 General Powers of Administration. 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 on the Company and the Participants.

ARTICLE VI

AMENDMENT AND TERMINATION

6.1 Amendment of the Plan: The Committee shall have the authority to adopt minor amendments to the Plan without prior approval by the Board of Directors that:

(a) are necessary or advisable for purposes of complying with applicable laws and regulations;

(b) relate to administrative practices under the Plan (including, but not limited to, the establishment of any procedures or processes or accounts related to the distribution of Common Stock or other amounts under the Plan);

(c) relate to the selection or deletion of additional notional investment options for Participants in their accounts; or

(d) have an insubstantial financial effect on the Plan.

The Board of Directors shall have the authority to adopt any other amendments to the Plan not encompassed under the terms of the preceding sentence. Any such amendments must be made by written instrument, and notice of such amendments shall be provided as soon as practicable to Participants after their adoption.

6.2 Limitations on Amendment or Termination of the Plan. The Company reserves the right to amend or terminate the Plan in any respect and at any time, without the consent of Participants or beneficiaries; provided, however, that the following conditions with respect to such amendment or termination must be satisfied in order for such amendment or termination to be binding and in effect:

(a) Such amendment or termination must be made pursuant to a written resolution of the Committee which is approved thereafter by the Board of Directors; and

(b) 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; provided, however, that

(i) any alteration of the notional investment options under the Plan,

(ii) any acceleration of payments of amounts accrued under the Plan by action of the Committee or the Compensation Committee or by operation of the Plan's terms; or

(iii) any decision by the Committee or the Compensation Committee to limit participation (or other features of the Plan) prospectively under the Plan

shall not be deemed to violate this provision.

6.3 Continuation or Termination—Change of Control. In the event of a Change of Control where the Company is not the surviving entity, any successor to the Company may elect to continue or to terminate the Plan (in either event, assuming any and all liabilities for such Plan); provided, however, that in the event the Plan is terminated by such entity, the Plan shall be terminated in accordance with the requirements of this Article VI. (including, but not limited to, the requirements of Section 6.2 herein).

ARTICLE VII

GENERAL PROVISIONS

7.1 Common Stock Subject to the Plan. The number of shares of Common Stock that may be distributed under the Plan in accordance with Article IV shall be 500,000 shares of Common Stock.

7.2 Participant's Rights Unsecured and Unfunded. This Plan is an unfunded plan maintained primarily to provide deferred compensation benefits for Non-Employee Directors, and therefore is exempt from the provisions of Parts 2, 3 and 4 of Title I of ERISA. Accordingly, no assets of the Company shall be segregated or earmarked to represent the liability for accrued benefits under the Plan. Amounts referenced in Participant Account statements are only recordkeeping devices reflecting such liability for accrued benefits, and do not reflect any actual amounts credited. 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 or any successor to the Company. All payments under the Plan shall be made from the general funds of the Company or any successor. 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 (or, if applicable, any successor).

Notwithstanding the foregoing, nothing in this Section 7.1 shall preclude the Company, in its sole discretion, 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 provide deferred compensation benefits for Non-Employee Directors within the meaning of Title I of ERISA.

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

7.4 No Creation of Employee Rights; Plan is Not A Contract of Employment. Participation in the Plan shall not be construed to give or deem any Participant to be an employee of the Company. This Plan shall not constitute a contract of employment between the Company and any Participant.

7.5 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, anticipation, 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.

7.6 Applicable Law; Severability. 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, if applicable. In the event any provision of this Plan shall be determined to be illegal or invalid for any reason, the remaining portion(s) shall continue in full force and effect as if such illegal or invalid provision had never been included herein.

7.7 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 (if applicable) 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, and the Company 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.

7.8 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, 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.

7.9 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 Company.

7.10 Data. Each Participant or beneficiary shall furnish the Committee 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 a form satisfactory to it.

7.11 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.

7.12 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.

EXHIBIT 10.20

==========

RETAIL BROKERAGE COMPANY FORMATION AGREEMENT

by and between

WACHOVIA CORPORATION

and

PRUDENTIAL FINANCIAL, INC.

DATED AS OF FEBRUARY 19, 2003

==========

TABLE OF CONTENTS

<TABLE>
<CAPTION>

		PAGE
<S>		<C>
ARTICLE 1 DEFINITIONS		1
Section 1.1	Defined Terms	1
ARTICLE 2 FORMATION OF VENTURE; CLOSING; RELATED TRANSACTIONS		34
Section 2.1	Formation of Company	34
Section 2.2	Transactions Prior to the Closing	34
Section 2.3	Time and Place of the Closing	35
Section 2.4	Deliveries and Other Actions at the Closing	35
Section 2.5	Post-Closing Adjustments	37
ARTICLE 3 BANK CHANNEL ARRANGEMENTS		40
Section 3.1	The Bank Channel	40
Section 3.2	Support for the Prudential Banks	41
Section 3.3	Wachovia Research Activities	41
ARTICLE 4 REPRESENTATIONS AND WARRANTIES		42
Section 4.1	Representations and Warranties of Wachovia	42
Section 4.2	Representations and Warranties of Prudential	57
ARTICLE 5 CERTAIN INTERIM AND OTHER COVENANTS		74
Section 5.1	Conduct of Business Prior to Closing	74
Section 5.2	Access to Information	77
Section 5.3	Consents; Conditions; Further Assurances	78
Section 5.4	Certain Contracts and IP	80
Section 5.5	Sufficiency of Assets	81
Section 5.6	Transfer Taxes	83
Section 5.7	Tax Sharing Agreements	83
Section 5.8	Taxes	83
Section 5.9	Real Estate Matters	86
Section 5.10	Wachovia Reorganization	86
ARTICLE 6 CONDITIONS TO CLOSING		86
Section 6.1	Conditions to Wachovia's Obligations	86
Section 6.2	Conditions to Prudential's Obligations	88
ARTICLE 7 INDEMNIFICATION		90
Section 7.1	Survival of Representations and Warranties	90
Section 7.2	Indemnification	90
Section 7.3	Limitations on Amounts	91
Section 7.4	Other Indemnification Provisions	92
Section 7.5	Procedures	92
Section 7.6	Procedures for Third Party Claims	93
Section 7.7	Mutual Assistance	97
ARTICLE 8 FURTHER AGREEMENTS		97

</TABLE>

<TABLE>
<CAPTION>

		PAGE
<S>		<C>

Section 8.1 No Commitments....97
Section 8.2 Confidentiality after the Closing....97
Section 8.3 Non-Competition; Non-Solicit....99
Section 8.4 Employee Matters....105
Section 8.5 Certain Contributed Businesses....119
Section 8.6 Further Assurances....120
Section 8.7 Hedge Fund Distribution....120

ARTICLE 9 CERTAIN COVENANTS AND AGREEMENTS REGARDING MEMBERSHIP INTERESTS....120
Section 9.1 Restrictions on Transfer; Permitted Transferees....120
Section 9.2 Right of First Refusal; Tag Along Right....121
Section 9.3 Prudential Put/Wachovia Call....124
Section 9.4 Preliminary Valuation Procedures for Discretionary Put/Call....130
Section 9.5 Further Assurances; Timing....131

ARTICLE 10 TERM AND TERMINATION....131
Section 10.1 Termination Prior to Closing....131
Section 10.2 Termination After Closing....132
Section 10.3 Effect of Termination....132

ARTICLE 11 FAIR MARKET VALUE....133
Section 11.1 Appraised Value of the Company and Acquired Retail Brokerage Business....133
Section 11.2 Other Appraised Values....134
Section 11.3 Access to Information....135
Section 11.4 Process....135

ARTICLE 12 MISCELLANEOUS....135
Section 12.1 Expenses....135
Section 12.2 Publicity....136
Section 12.3 Amendment or Modification....136
Section 12.4 Waiver....136
Section 12.5 Entire Agreement....137
Section 12.6 Third-Party Beneficiaries....137
Section 12.7 Non-Assignability; Binding Effect....137
Section 12.8 Severability....137
Section 12.9 Injunctive Relief....137
Section 12.10 GOVERNING LAW....138
Section 12.11 Submission to Jurisdiction....138
Section 12.12 Alternative Dispute Resolution....138
Section 12.13 WAIVER OF JURY TRIAL....140
Section 12.14 Notices....140
Section 12.15 Counterparts....141
Section 12.16 Interpretation....141

SCHEDULES

Schedule	Description
Schedule 1.1(a)	Wachovia Contributed Subsidiaries
Schedule 1.1(b)	Prudential Contributed Subsidiaries
Schedule 1.1(c)	Wachovia Contributed Leased Real Property
Schedule 1.1(d)	Prudential Contributed Leased Real Property
Schedule 1.1(e)(i)	One Time Costs for Contributed Businesses
Schedule 1.1(e)(ii)	One Time Costs for Acquired Retail Brokerage Business
Schedule 1.1(f)	Financial Statements of the Wachovia Contributed Business
Schedule 1.1(g)	Financial Statements of the Prudential Contributed Business
Schedule 1.1(h)	Wachovia Knowledge
Schedule 1.1(i)	Prudential Knowledge
Schedule 1.1(j)	Specified Wachovia Securities Officers
Schedule 1.1(k)	Wachovia Contributed Assets
Schedule 1.1(l)	Prudential Contributed Assets
Schedule 1.1(m)	Wachovia Contributed Real Property
Schedule 1.1(n)	Prudential Contributed Real Property

<TABLE>
Schedule 1.1(o)	Wachovia Contributed IP
Schedule 1.1(p)	Prudential Contributed IP
Schedule 1.1(q)	Wachovia Excluded Liabilities
Schedule 1.1(r)	Prudential Excluded Liabilities
Schedule 1.1(s)	Wachovia Contributed Liabilities
Schedule 1.1(t)	Prudential Contributed Liabilities
Schedule 1.1(u)	Wachovia Contributed Liabilities Relating to Employee Matters
Schedule 1.1(v)	Prudential Contributed Liabilities Relating to Employee Matters
Schedule 1.1(w)	Wachovia Excluded Assets
Schedule 1.1(x)	Prudential Excluded Assets
Schedule 1.1(y)	Certain Benefits Information
Schedule 1.1(z)	Cost Basis Price
Schedule 2.2(a)	Wachovia Reorganization
Schedule 2.2(b)	Prudential Pre-Closing Conversion
Schedule 2.5(a)(i)	Wachovia GAAP Exceptions
</TABLE>

<TABLE>
<S>	<C>
Schedule 2.5(a)(ii)	Prudential GAAP Exceptions
Schedule 3.1(b)	Referral Fees
Schedule 3.3	Wachovia Research Activities
Schedule 4.1(e)	Wachovia Governmental Approvals and Third Party Approvals
Schedule 4.1(f)	Wachovia Undisclosed Liabilities
Schedule 4.1(h)	Wachovia Liens
Schedule 4.1(i)	Wachovia Contracts
Schedule 4.1(j)(i)	Wachovia Claims
Schedule 4.1(j)(ii)	Wachovia Orders
Schedule 4.1(k)(i)	Wachovia Compliance with Laws
Schedule 4.1(k)(ii)	Wachovia Permits
Schedule 4.1(k)(viii)	Wachovia Memberships
Schedule 4.1(k)(ix)	Wachovia Licenses and Registrations
Schedule 4.1(l)	Wachovia Taxes
Schedule 4.1(m)(i)	Wachovia Contributed Business Plans
Schedule 4.1(m)(iii)(B)	Wachovia Benefit Plan Claims
Schedule 4.1(m)(iii)(E)	Wachovia Retiree Welfare Plans
Schedule 4.1(o)	Wachovia Intellectual Property Claims
Schedule 4.1(r)	Wachovia Affiliate Transactions
Schedule 4.2(b)	Prudential Contributed Subsidiaries
Schedule 4.2(d)	Prudential Conflicts
Schedule 4.2(e)	Prudential Governmental Approvals and Third Party Approvals
Schedule 4.2(f)	Prudential Undisclosed Liabilities
Schedule 4.2(h)	Prudential Liens
Schedule 4.2(i)	Prudential Contracts

<TABLE>
<S>
Schedule 4.2(j)(i)
<C>
Prudential Claims

Schedule 4.2(j)(ii)
Prudential Orders

Schedule 4.2(k)(i)
Prudential Compliance with Laws

Schedule 4.2(k)(ii)
Prudential Permits

Schedule 4.2(k)(viii)
Prudential Memberships

Schedule 4.2(k)(ix)
Prudential Licenses and Registrations

Schedule 4.2(l)
Prudential Taxes

Schedule 4.2(m)(i)(A)
Prudential Contributed Business Plans
</TABLE>

<TABLE>
<S>
Schedule 4.2(m)(i)(B)
<C>
Prudential Communication of Intent to Modify Benefit Plan

Schedule 4.2(m)(iii)(C)
Prudential Multiemployer/Multiple-Employer Plans

Schedule 4.2(m)(iii)(E)
Prudential Retiree Welfare Plans

Schedule 4.2(m)(iii)(F)
Prudential Acceleration of Payments or Funding of Prudential Contributed Business Plans

Schedule 4.2(m)(iv)
Foreign Prudential Plans

Schedule 4.2(o)
Prudential Intellectual Property Claims

Schedule 4.2(r)
Prudential Affiliate Transactions

Schedule 5.1
Conduct of Business Prior to the Closing

Schedule 5.1(b)(vii)(D)
Prudential Equity Awards to be Granted

Schedule 5.1(b)(vii)(G)
Certain Wachovia Benefit Plans to be Amended

Schedule 5.4(b)
Small Contracts

Schedule 5.9(a)
Prudential Excluded Businesses Leased Real Property

Schedule 5.9(b)
Prudential Excluded Leased Real Property

Schedule 6.1(d)
Required Prudential Consents

Schedule 6.2(d)
Required Wachovia Consents

Schedule 8.2(g)
Disclosure Protocol

Schedule 8.4(a)(i)-1
Wachovia Eligible Individuals

Schedule 8.4(a)(i)-2
Prudential Eligible Individuals

Schedule 8.4(c)(iii)
Certain Prudential Individuals

Schedule 8.4(f)(i)
Prudential MasterShare Programs

Schedule 8.4(f)(ii)
Prudential Nonqualified Plans

Schedule 8.4(f)(iv)
Prudential Equity Awards

Schedule 9.3(f)
Registration Rights
</TABLE>

EXHIBITS

<TABLE>
<CAPTION>
<S>
Exhibit
<C>
Description
<S>
Exhibit A
<C>
Form of Certificate of Formation

Exhibit B
Form of Amended and Restated Limited Liability Company Agreement
</TABLE>

Exhibit C Form of Wachovia/Company Master Agreement

Exhibit D Form of Prudential/Company Interim Agreement

Exhibit E Form of Product Agreement

Exhibit F Form of Wachovia Intellectual Property License Agreement

Exhibit G Form of Prudential Intellectual Property License Agreement

Exhibit H Form of Prudential Note

Exhibit I Form of Guarantee

Exhibit J Form of Company/Prudential Interim Agreement

Exhibit K Form of Company/Wachovia Letter Agreement
</TABLE>

RETAIL BROKERAGE COMPANY FORMATION AGREEMENT

THIS RETAIL BROKERAGE COMPANY FORMATION AGREEMENT (this "Agreement") is made as of February 19, 2003, by and between WACHOVIA CORPORATION, a North Carolina corporation ("Wachovia"), and PRUDENTIAL FINANCIAL, INC., a New Jersey corporation ("Prudential") (hereinafter, each of which may be called a "Party" and may collectively be called the "Parties").

RECITALS

A. Wachovia, primarily through the Wachovia Contributed Subsidiaries (defined terms used in these recitals being used as defined in Section 1.1), is engaged in the Wachovia Contributed Business, and Prudential, primarily through Subsidiaries, is engaged in the Prudential Contributed Business.

B. The Parties desire to contribute their respective Contributed Businesses to a Delaware limited liability company to be formed pursuant to Section 2.1 (such entity and any successor thereof, the "Company").

C. The Parties desire to enter into this Agreement to set forth the terms and conditions for the formation and operation of the Company and the terms of ownership of their respective Interests therein.

ARTICLE 1

DEFINITIONS

Section 1.1 Defined Terms. In this Agreement, except where the context otherwise requires:

"Accounts Payable" means all accounts and notes payable arising from the Contributed Businesses, including those of the type reflected on the balance sheet included in either the Financial Statements of the Wachovia Contributed Business or the Financial Statements of the Prudential Contributed Business as payable to customers, vendors, and others, including but not limited to book overdrafts, dividend and interest payable, amounts due to fund companies for shares purchased, amounts due to banks for cleared CRA account checks, accrued sales contests, accrued branch manager meeting expenses, accrued regulatory fees, accrued clearance charges, accrued statement expenses, and accrued telecommunications expenses.

"Accounts Receivable" means all accounts and notes receivable arising from the Contributed Businesses, including those of the type reflected on the balance sheet included in either the Financial Statements of the Wachovia Contributed Business or the Financial Statements of the Prudential Contributed Business as due from customers, brokers, dealers, clearing organizations and others, including but not limited to amounts due resulting from failures to deliver, securities borrowing transactions and

correspondent clearance transactions, dividends and interest receivable, deposits in transit and amounts due from fund companies for sold or liquidated shares and similar assets.

"Acquired Retail Brokerage Business" has the meaning set forth in Section 8.3(b).

"Acquisition Representative" has the meaning set forth in Section 8.3(d).

"Advisers Act" means the Investment Advisers Act of 1940, as amended, and the rules and regulations promulgated thereunder.

"Affiliate" means with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under common control with such other Person, including but not limited to such Person's Subsidiaries; and "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise. Unless otherwise specifically stated, the term "Affiliate" does not include: (x) the Company Entities when used with respect to any Party, any Wachovia Entity, or any Prudential Entity, and (y) the Wachovia Entities or the Prudential Entities when used with respect to any Company Entity. "Affiliated" and "Affiliation" shall have a correlative meaning.

"Agreement" has the meaning set forth in the preamble hereto.

"Annual Bonus Plans" has the meaning set forth in Section 8.4(f).

"Appraised Company" has the meaning set forth in the definition of Appraised Value.

"Appraised Value" means, with respect to an Acquired Retail Brokerage Business or the Company, as the case may be (either, an "Appraised Company"), the value that a Person (such Person, an "Appraiser") valuing the common equity of the Appraised Company (or if the Appraised Company is a division or other unincorporated unit of another company, the net fair value of the assets and liabilities of such division or other unit) pursuant to this Agreement has determined such Appraised Company would have in the public markets if such Appraised Company were a public company, for which purpose the Appraiser:

(i) shall assume the following: (A) the valuation is based on the Appraised Company and its Subsidiaries taken as a whole, (B) the Appraised Company will remain independent and have the continued ownership by such Appraised Company of its Subsidiaries and (C) the Appraised Company's then existing contractual relationships (including, in the case of the Company, the then-existing Bank Channel arrangements, such as those relating to pricing, referrals and exclusivity) shall remain in full force and effect and continue unchanged;

(ii) shall take into account other factors relevant to such valuation, including (A) the prospects of the Appraised Company and its Subsidiaries, (B) the value of the

estimated future earnings of the Appraised Company and its Subsidiaries, (C) the size of the Appraised Company and its Subsidiaries, (D) the equity and tangible equity of the Appraised Company and its Subsidiaries as disclosed in its most recent consolidated financial statements, (E) the public market trading values of comparable companies, (F) the business mix of the Appraised Company relative to comparable companies, and (G) such other factors as the Appraiser deems relevant; and

(iii) shall exclude any discounts to such valuation due solely to the illiquid nature of an investment in such Appraised Company or any discount relating solely to the fact that the Appraised Company is not a public company, if any;

provided that in determining the Appraised Value of the Company (but not any Acquired Retail Brokerage Business) for purposes of determining any Put/Call Price calculated by reference to "Appraised Value" (but not for purposes of determining the Appraised Value of the Company pursuant to Article 3 of the LLC Agreement), the Appraiser shall not include any minority discounts but instead shall include a control premium reflecting the premium over the public trading value that the Appraiser determines would likely be applicable in the event of a sale of 100% of the common equity of the Company, assuming a willing buyer and a willing seller and taking into account (A) premiums over public market prices in precedent transactions of comparable size in the broker-dealer industry, the financial services industry and recent precedent transactions outside of the financial services industry where considered by the Appraiser to be relevant, (B) multiples of future earnings, equity and tangible equity paid in precedent transactions in the broker-dealer industry and (C) such other factors as the Appraiser deems relevant; provided, further, that the Appraised Value of the Company shall in no event be less than the Tangible Book Value of the Company; and provided, further, that in no event shall the Appraised Value of an Acquired Retail Brokerage Business exceed the purchase price paid therefor by the applicable Party and its Affiliates (exclusive of related One Time Costs payable by the Parties or any Members pursuant to the Transaction Documents), it being understood that where the Acquired Retail Brokerage Business was acquired in connection with the

acquisition of other assets, operations or entities, to determine the purchase price of the Acquired Retail Brokerage Business for purposes of this proviso, the Appraiser shall allocate the purchase price paid for the entire acquisition among such acquired assets, operations or entities based on their respective Appraised Values as determined for this purpose by the Appraiser.

"Appraiser" has the meaning set forth in the definition of "Appraised Value."

"Assignable Employees" has the meaning set forth in Section 4.2(m).

"Associate Options" has the meaning set forth in Section 8.4(f).

"Average Stock Price" means with respect to any shares of Wachovia Common Stock as of any date, the average of the closing prices of such shares on the NYSE (or such other principal stock exchange or automated quotation system on which such shares are then traded) during the 10 trading day period ending on the trading day immediately preceding such date.

"Bank Channel" means all activities conducted by Wachovia's Investment Services Group (or any corresponding successor group) and, after the Closing, by the Company, in bank branches and customer call centers of Wachovia Bank (or successor thereto) that are related to the offer and sale of Securities Products by the employees of such group and by the Bank Channel Employees to retail customers located in the United States.

"Bank Channel Employees" means those employees of Wachovia Bank who are licensed as "associated persons" of a Wachovia Contributed Subsidiary and, after Closing, are licensed as "associated persons" of the Company or one of its Subsidiaries.

"Bankruptcy" means, with respect to a Party, any of the following events:

(i) such Party or any of its Significant Subsidiaries (A) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (B) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar Law of any jurisdiction, (C) makes an assignment for the benefit of its creditors, (D) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (E) is adjudicated as insolvent or to be liquidated, or (F) takes corporate action for the purpose of any of the foregoing; or

(ii) a Governmental Authority of competent jurisdiction enters an Order appointing, without consent by such Party or any of its Significant Subsidiaries, a custodian, receiver, trustee or other officer with similar powers with respect to such Party or any of its Significant Subsidiaries or with respect to any substantial part of its or their property, or constituting an Order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or receivership or for liquidation or to take advantage of any bankruptcy, receivership or insolvency Law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of such Party or any of its Significant Subsidiaries, or any such petition shall be filed against such Party or any of its Significant Subsidiaries and such petition shall not be dismissed within 60 days.

"Benefit Plan" shall mean a Wachovia Contributed Business Plan or a Prudential Contributed Business Plan, as applicable, and any successor employee compensation and benefit plans thereto established by any Company Entity on or after the Closing Date.

"Binding Arbitrable Dispute" has the meaning set forth in Section 12.12(b).

"Board of Managers" has the meaning set forth in the LLC Agreement.

"Broker Contribution Date" has the meaning set forth in the LLC Agreement.

"Business" means the offer and sale of (x) retail brokerage services (including through direct, discount and on-line delivery channels) in publicly traded stocks and bonds and money market instruments (excluding products eligible for FDIC insurance) to

individual (including high-net worth) investors located in the Territory, and (y) securities correspondent clearing services to broker-dealers for transactions in securities traded in markets in the United States for customers anywhere in the world.

"Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in Charlotte, North Carolina or New York, New York are authorized or obligated by Law or executive order to close.

"Cap" has the meaning set forth in Section 7.3(b).

"Certificate of Formation" means the Certificate of Formation of the Company substantially in the form of Exhibit A hereto.

"Change of Control" means:

(i) with respect to either Party, the consummation of a Combination Transaction between such Party or any of its Subsidiaries (other than the Company Entities) and a Major Competitor or any of its Affiliates in which such Party is not the Surviving Entity;

(ii) with respect to Wachovia, the consummation of a Combination Transaction between any Wachovia Entity and a Major Insurance Company or any of its Affiliates in which Wachovia is not the Surviving Entity; or

(iii) with respect to Prudential, the consummation of a Combination Transaction between any Prudential Entity and a Major Banking Institution or any of its Affiliates in which Prudential is not the Surviving Entity.

For purposes of the foregoing, a Party shall be deemed not to be a "Surviving Entity" of a Combination Transaction if after giving effect thereto (x) either the stockholders of such Party or individuals who immediately prior to such Combination Transaction were members of the Board of Directors of such Party cease to constitute at least 50% of the stockholders or Board of Directors of such Party (or if such Party is not the ultimate parent entity of the entity resulting from such Combination Transaction, at least 50% of the stockholders or Board of Directors of such ultimate parent entity) or (y) such Party has disposed of all or substantially all of the assets of such Party, on a consolidated basis, which it held immediately prior to such Combination Transaction.

"Claim" means any and all actions, suits, litigation, demands, claims or counterclaims or legal, administrative or arbitral proceedings, information requests or investigations or Orders.

"Closing" has the meaning and consists of the transactions set forth in Section 2.3.

"Closing Date" has the meaning set forth in Section 2.3.

"COBRA" means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended, and the rules and regulations promulgated thereunder.

"Code" means the Internal Revenue Code of 1986, as amended, and the rules and regulations promulgated thereunder.

"Combination Transaction" means, with respect to any Person, any transaction pursuant to which (i) such Person merges, consolidates or otherwise combines with, or directly or indirectly acquires or is acquired (in any case whether by stock purchase, asset purchase or otherwise) by, or sells all or a substantial portion of its assets to, any other Person, or (ii) any other Person acquires beneficial ownership of a majority of the voting stock of, or the right to elect or appoint a majority of the Board of Directors of, such Person. A "Combination Transaction" includes a Retail Brokerage Combination Transaction.

"Combining Party" means a Party who is or publicly proposes to become (or one or more of whose Affiliates is or publicly proposes to become) a party to a Combination Transaction.

"Company" has the meaning set forth in the recitals hereto.

"Company Entities" means the Company and, from time to time, its Subsidiaries, giving effect to the Closing.

"Company/Prudential Interim Agreement" means the Services Agreement between the Company and Prudential, substantially in the form of Exhibit J hereto, to be entered into pursuant to Section 2.4, pursuant to which the Company shall provide certain services to Prudential and its Subsidiaries on a temporary basis after the Closing, as the same may be amended,

supplemented or otherwise modified from time to time after the Closing Date.

"Company Transferred Individuals" has the meaning set forth in Section 8.4(a).

"Company/Wachovia Letter Agreement" means that letter agreement between the Company and Wachovia, substantially in the form of Exhibit K, pursuant to which the Company will provide specified services to the Wachovia Entities following the Closing Date, as the same may be amended, supplemented or otherwise modified from time to time after the Closing Date.

"Confidentiality Agreements" means the letters, dated as of March 26 and March 27, 2002, respectively, by and between Wachovia Securities and Prudential Securities, as they may have been extended from time to time, including pursuant to Section 8.2 hereof.

"Consent" means any consent, approval, authorization, waiver, grant, franchise, concession, agreement, license, exemption or other Permit or Order of, registration, declaration or filing with, or report or notice to, any Person.

"Consumer Price Index" means the Consumer Price Index for All Urban Consumers for the U.S. City Average for All Items, as published from time to time by the Bureau of Labor Statistics of the United States Department of Labor.

"Contributed Assets" means the Wachovia Contributed Assets or the Prudential Contributed Assets, or both, as the context requires.

"Contributed Business Individuals" has the meaning set forth in Section 8.4(a).

"Contributed Businesses" means the Wachovia Contributed Business and the Prudential Contributed Business, or either of them, as the context requires.

"Contributed IP License" means, with respect to a Party, any license, consent, royalty or other agreement concerning any Intellectual Property licensed to such Party or a Subsidiary of such Party and used or held for use exclusively or primarily with respect to such Party's Contributed Business.

"Contributed Leased Real Property" means, with respect to Wachovia, the real property occupied or used by Wachovia or one of its Subsidiaries or other Affiliates pursuant to a Contributed Real Property Lease located at the addresses set forth on Schedule 1.1(c) and, with respect to Prudential, the real property occupied or used by Prudential Securities pursuant to a Contributed Real Property Lease located at the addresses set forth on Schedule 1.1(d).

"Contributed Real Property" means, with respect to Wachovia, the real property owned in fee by Wachovia or one of its Subsidiaries or other Affiliates located at the addresses set forth on Schedule 1.1(m) and, with respect to Prudential, the real property owned in fee by Prudential Securities located at the addresses set forth on Schedule 1.1(n).

"Contributed Real Property Lease" means any lease or sublease by or under which Wachovia or one of its Subsidiaries or other Affiliates or Prudential Securities holds a leasehold interest or uses or occupies or has the right to use or occupy any Contributed Leased Real Property or any portion thereof or interest therein.

"Contributed Subsidiary" means a Wachovia Contributed Subsidiary or a Prudential Contributed Subsidiary, as the context requires.

"Controlling Party" has the meaning set forth in Section 7.6(b).

"Controlling Tax Party" has the meaning set forth in Section 5.8(d).

"Cost Basis Price" means the sum of (i) the initial capital contribution of $1.0 billion by the Prudential Members at Closing, plus (ii) the funding by the Prudential Members of their Percentage Interests of One Time Costs (whether at Closing pursuant to Section 2.4 or by additional capital contributions thereafter pursuant to Section 3.2(d) of the LLC Agreement), plus (iii) the product of (x) the aggregate Percentage Interests of the Prudential Members as of the relevant times multiplied by (y) the sum of (A) the

amount of One Time Costs which have reduced the aggregate sum of Distributable Cash (as defined in the LLC Agreement) from the Closing Date to the date as of which the Cost Basis Price is being determined and which were not otherwise funded pursuant to clause (ii) plus (B) the aggregate amount of financial advisor and branch manager retention payments made in connection with the formation of the Company as set forth on Schedule 1.1(z), less any such retention payments that are included in the preceding clause (A), plus (iv) to the extent not covered in clause (ii) or (iii), the aggregate amount of the additional capital contributions of the Prudential Members to the Company (whether (A) in cash (including any deemed capital contribution pursuant to Section 3.2(b)(iv) of the LLC Agreement) or (B) in respect of Acquired Retail Brokerage Businesses acquired by Prudential and its Affiliates and contributed to the Company pursuant to Section 3.4 of the LLC Agreement, or (C) in other property, in each case valued as provided herein and in the LLC Agreement), plus (v) any payments from Prudential Members to Wachovia Members to acquire Membership Interests pursuant to Sections 3.4(d)(ii), (e)(iii) or (e)(iv) of the LLC Agreement, minus (vi) any payments from Wachovia Members to Prudential Members to acquire Membership Interests pursuant to Sections 3.4(d)(ii), (e)(iii) or (e)(iv) of the LLC Agreement, and minus (vii) any payments from the Company to the Prudential Members upon redemption of their Membership Interests pursuant to Sections 3.2(d) or 3.5 of the LLC Agreement.

"CPA Firm" has the meaning set forth in Section 2.5(b).

"DCP" has the meaning set forth in Section 8.4(f).

"Derivatives and FX Product" means any exchange-traded or over-the-counter transaction or product that is:

(i) a rate swap transaction, swap option, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap, equity or equity index option, bond option, interest rate option, foreign exchange transaction, cap transaction, floor transaction, collar transaction, currency swap transaction, cross-currency rate swap transaction, currency option, credit protection transaction, credit swap, credit default swap, credit default option, total return swap, credit spread transaction, repurchase transaction, reverse repurchase transaction, buy/sell-back transaction, securities lending or borrowing transaction, weather index transaction, forward purchase or sale of a security or a commodity, listed option, exchange traded future, exchange traded fund or other financial instrument or interest (including any option with respect to any of the foregoing transactions) that is based on the value of, any interest in, or any quantitative measure or the occurrence of any event relating to one or more rates, currencies, commodities, equity securities or other equity instruments, debt securities or other debt instruments, economic indices or measures of economic risk or value, or other benchmarks against which payments or deliveries are to be made; or

(ii) a type of transaction that is similar to any transaction or product referred to in clause (i) above that is currently, or in the future, entered into in the financial markets and that is a forward, swap, future, option or other derivative on

one or more rates, currencies, commodities, equity securities or other equity instruments, debt securities or other debt instruments, economic indices or measures of economic risk or value, or other benchmarks against which payments or deliveries are to be made; or

(iii) any combination of the foregoing transactions or products, including but not limited to those offered in the form of a certificate of deposit, warrant, note or other instrument or security that is based on the value of, any interest in, or any quantitative measure or the occurrence of any event relating to one or more rates, currencies, commodities, equity securities or other equity instruments, debt securities or other debt instruments, economic indices or measures of economic risk or value, or other benchmarks against which payments or deliveries are to be made, including, without limitation, currency-linked, credit-linked, equity-linked or commodity-linked notes, depositary instruments or hybrid securities; or

(iv) a repurchase transaction, reverse repurchase transaction, buy/sell-back transaction, or securities lending or borrowing transaction.

"Designated Company Subsidiary" has the meaning set forth in Section 2.4(c).

"Discretionary Put/Call" means a Prudential Put or Wachovia Call described in Section 9.3(a)(ii), 9.3(b)(i) or 9.3(b)(v).

"Discretionary Put/Call Closing Date" has the meaning set forth in Section 9.3(e).

"Election Period" has the meaning set forth in Section 9.2(a).

"Eligible Individuals" has the meaning set forth in Section 8.4(a).

"End Date" has the meaning set forth in Section 8.4(f).

"Environmental Laws" means all Laws relating to the protection of the environment, and to human health and safety (to the extent relating to the environment or exposure to Hazardous Materials), including, without limitation, (a) the Comprehensive Environmental Response, Compensation and Liability Act, the Resource Conservation and Recovery Act, and the Occupational Safety and Health Act, (b) all other requirements pertaining to reporting, licensing, permitting, investigation or remediation of emissions, discharges, releases or threatened releases of Hazardous Materials into the air, surface water, groundwater or land, or relating to the manufacture, processing, distribution, use, sale, treatment, receipt, storage, disposal, transport or handling of Hazardous Materials, and (c) all other requirements pertaining to the protection of the health and safety of employees or the public (to the extent relating to the environment or exposure to Hazardous Materials).

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Excluded Businesses" means the Wachovia Excluded Businesses or the Prudential Excluded Businesses, or both, as the context requires.

"Excluded Claims" means, with respect to either Party, Losses due to a Claim asserted against any Contributed Subsidiary or with respect to any Contributed Assets or the Contributed Business of that Party, which arises from an action, omission to act, condition or event (or series of related actions, omissions, conditions or events) that first occurred prior to the Closing, whether or not such action, omission, condition or event (or series of related actions, omissions, conditions or events) continues after the Closing (and including any such Losses that continue to accrue therefrom at any time following the Closing), including but not limited to the litigation referred to in Section 7.6(g); provided that Excluded Claims shall exclude any Claims that arise from any such action, omission, condition or event (or series of related actions, omissions, conditions or events) to the extent that they continue to occur following the 270th day after the Closing.

"Excluded Liabilities" means, in the case of Wachovia, the Wachovia Excluded Liabilities, and, in the case of Prudential, the Prudential Excluded Liabilities, or both of them, as the context requires.

"Excludible Retail Brokerage Business" means an Acquired Retail Brokerage Business which, as of the date of such acquisition by a Party or its Affiliates:

(i) within the preceding three years, has been permanently enjoined by any Governmental Authority from (x) performing any sales related activity or practice, (y) selling any type of product or (z) acting as an investment adviser;

(ii) within the preceding twelve months has employed or retained as an executive officer, director or control person (as those terms are used for purposes of Item 401 of Regulation S-K promulgated under the Securities Act) any individual who, within the preceding three years, has been charged with, by way of indictment or criminal information, or within the last 10 years was convicted of, any crime involving fraud, misappropriation of funds, or breach of trust;

(iii) within the preceding three years has been the subject, on more than three occasions, of an Order in connection with any failure to supervise its registered representatives;

(iv) within the preceding three years has been subject to, or has been advised that it will be subject to, the NASD "Taping Rules" as detailed in NASD Rule 3010; or

(v) is then currently or within the preceding three years has been the subject of a Claim brought by or on behalf of a Governmental Authority (x) which resulted in, or may reasonably be expected to result in, monetary sanctions in excess of 10% of its revenues for the previous twelve-month period or (y) in which the Governmental Authority is seeking to bar or

barred the firm from acting as an introducing broker, an investment adviser or a broker or dealer.

"FA Notes" has the meaning set forth in the LLC Agreement.

"Federal Funds Rate" means, for any date, the weighted average of the rates set forth in the weekly statistical release H.15 (519) (or any successor publication) published by the Board of Governors of the Federal Reserve System opposite the caption "Federal Funds (Effective)."

"Final Closing Balance Sheet" has the meaning set forth in Section 2.5(b).

"Financial Statements of the Prudential Contributed Business" means the consolidated unaudited balance sheet of the Prudential Contributed Business as of December 31, 2002, and the consolidated unaudited statements of income of the Prudential Contributed Business for the twelve-month periods ending on December 31, 2001 and December 31, 2002, copies of which are included in Schedule 1.1(g) hereto.

"Financial Statements of the Wachovia Contributed Business" means the consolidated unaudited balance sheet of the Wachovia Contributed Business as of December 31, 2002, and the consolidated unaudited statements of income of the Wachovia Contributed Business for the twelve-month periods ending on December 31, 2001 and December 31, 2002, copies of which are included in Schedule 1.1(f) hereto.

"First Refusal Right" has the meaning set forth in Section 9.2(b).

"Foreign Prudential Plans" has the meaning set forth in Section 4.2(m).

"GAAP" means generally accepted accounting principles as in effect in the United States from time to time.

"Governmental Approval" means any Consent of, with or to any Governmental Authority, and includes any applicable waiting periods associated with any Governmental Approvals.

"Governmental Authority" means any nation or government, any state or other political subdivision thereof, any entity, authority or body exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government, including, without limitation, any government authority, agency, department, board, body, commission or instrumentality of the United States or foreign nation, or any state or other political subdivision thereof, and any court, tribunal or arbitrator, and any self-regulatory organization.

"Guarantee" means a guarantee, substantially in the form of Exhibit I hereto, whereby a Party guarantees the performance and obligations of its Subsidiaries under any Transaction Document.

"Hazardous Materials" means any substance that: (a) is or contains asbestos, urea formaldehyde foam insulation, polychlorinated biphenyls, petroleum or petroleum-derived substances or wastes, radon gas or related materials, (b) requires investigation, removal or remediation under any Environmental Law, or is defined, listed or identified as a "hazardous waste" or "hazardous substance" thereunder, or (c) is toxic, explosive,

corrosive, flammable, infectious, radioactive, carcinogenic, mutagenic, or otherwise hazardous and is regulated by any Governmental Authority or Environmental Law.

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder.

"Indemnitees" has the meaning set forth in Section 7.2.

"Indemnitor" has the meaning set forth in Section 7.2.

"Individual Schedules" has the meaning set forth in Section 8.4(a).

"Information" has the meaning set forth in Section 8.2(a).

"Information Representatives" has the meaning set forth in Section 8.2(c).

"Infringe" means, with respect to Intellectual Property, to infringe, impair, dilute or otherwise violate "Infringement" shall have a correlative

meaning.

"Initial Members" means, in the case of Wachovia, each Initial Wachovia Member, and, in the case of Prudential, each Initial Prudential Member, or both of them, as the context requires.

"Initial Prudential Member" means any directly or indirectly Wholly-Owned Subsidiary of Prudential to become a Member of the Company at the Closing.

"Initial Wachovia Member" means any directly or indirectly Wholly-Owned Subsidiary of Wachovia to become a Member of the Company at the Closing.

"Integration Period" has the meaning set forth in the LLC Agreement.

"Intellectual Property" means all intellectual property rights under any Law, including, without limitation: (a) (i) inventions, discoveries, processes, designs, techniques, and related improvements, whether or not patented or patentable; (ii) trademarks, trade dress, service marks, service names, trade names, brand names, logos, Internet domain names, business symbols, or other source indicators, and all goodwill associated therewith and all common law rights relating thereto; (iii) copyrights and works of authorship in any media; (iv) know-how, trade secrets, and confidential or proprietary information and data; and (v) rights of publicity and privacy, "name and likeness" rights and other similar rights; (b) all applications, registrations, patents, certifications, and recordings related thereto; (c) all rights to obtain renewals, extensions, continuations, continuations-in-part, reissues, divisions or similar legal protections related thereto; and (d) all rights to bring an action at law or in equity for the Infringement of the foregoing before the Closing Date, including the right to receive all proceeds and damages therefrom.

"Intentional Breach" by a Party shall, for purposes of Article 9, be deemed to occur if:

(a) all of the following conditions have been met:

(i) Such Party or any of its Subsidiaries shall have intentionally and materially breached, after the Closing: (1) Article 3 or Sections 8.2, 8.3 or 9.2 of this Agreement, (2) Article 3 or 8 of the LLC Agreement, (3) Article IV or V of the Product Agreement, (4) the Wachovia/Company Master Agreement, or (5) the Prudential/Company Interim Agreement. For purposes of this definition only, "intentionally" means that a Party's senior management knowingly participated in or knowingly acquiesced to such breach, or, upon becoming aware of such breach, did not use all commercially reasonable efforts to prevent or cure such breach in good faith, and "materially" shall mean (i) resulting in, or likely to result in, (A) Losses to the Company Entities or the other Party and its Subsidiaries of $200 million or more or (B) any Material Adverse Effect on the Company (whether or not quantifiable in money damages);

(ii) The other Party shall have delivered written notice to such Party stating that it believes such Party intentionally and materially breached one or more of the provisions of this Agreement or any other Transaction Document specified in clause (i) above, which notice shall state with reasonable specificity the breach and shall identify specific actions to be taken by such Party to cure the breach; and

(iii) Such breach shall not have been cured within 60 days following delivery of notice of breach by the other Party to such Party; provided that if such breach is capable of being cured but not within such 60-day period and such Party is acting in good faith to cure such breach, then it shall not have been cured in such longer period as may be required, but in no event longer than six months; provided, further, that if Prudential and Wachovia are disputing the existence of an Intentional Breach or whether such Intentional Breach was cured within the applicable cure period pursuant to the procedures set forth in Section 12.12(b), there shall have been a final determination of the existence of such a breach or the absence of such cure pursuant to the arbitration provisions of Section 12.12(b); or

(b) Such Party shall have failed to effect the divestiture of (i) an Excludible Retail Brokerage Business, or (ii) a Large Retail Broker which such Party elected to divest pursuant to Section 8.3(c), in each case on or prior to the first anniversary of the acquisition thereof or such other date after such first anniversary as the Parties may agree in writing.

"Interests" or "Membership Interests" means the limited liability company interests of the Company as contemplated by the LLC Agreement, and

such other equity interests of the Company or any successor to the Company into which such interests may be converted.

"Investment Company Act" means the Investment Company Act of 1940, as amended, and the rules and regulations promulgated thereunder.

"ISP" has the meaning set forth in Section 8.4(d).

"IT Systems" means software, databases, systems, networks and Internet sites.

"Joint Loss Claim" has the meaning set forth in Section 7.6(b).

"Knowledge" means, in the case of Wachovia, the actual knowledge after due inquiry of the individuals set forth on Schedule 1.1(h), and, in the case of Prudential, the actual knowledge after due inquiry of the individuals set forth on Schedule 1.1(i).

"Large Retail Broker" means any Person whose revenues derived from such Person's conduct of the Business during the most recently completed fiscal year exceed (a) 25% of the total consolidated revenues of the Company for the Company's most recently completed fiscal year or (b) in the case of transactions occurring prior to January 1, 2005, $1.05 billion.

"Large Retail Brokerage Combination" means any Retail Brokerage Combination Transaction involving a Large Retail Broker.

"Latin America" means the geographical region consisting of Central America and South America, but excluding Mexico.

"Law" means any law (including but not limited to common law), constitution, treaty, statute, code, rule, regulation, ordinance or other pronouncement of a Governmental Authority having a similar effect and any Order.

"Lien" means any lien, security interest, pledge, charge, encumbrance, claim or similar right.

"LLC Agreement" means the Amended and Restated Limited Liability Company Agreement between each Initial Wachovia Member and each Initial Prudential Member to be entered into pursuant to Section 2.4 hereof, substantially in the form of Exhibit B hereto, and as it may be amended from time to time after the Closing Date.

"Lookback Option" has the meaning set forth in the LLC Agreement.

"Lookback Period" has the meaning set forth in the LLC Agreement.

"Losses" has the meaning set forth in Section 7.2.

"Major Banking Institution" means any Person that is ranked among the top 10 bank holding companies headquartered in the United States based on total assets of its subsidiary FDIC-insured depository institutions as shown on the most recent publicly-available call report data filed by such depository institutions with the applicable federal banking agencies.

"Major Competitor" means a Person that is engaged in the Business with revenues from the Business for the trailing 12-month period ending on the last day of the most

recently completed fiscal quarter that are greater than 120% of the revenues (or, for periods prior to the Closing Date, pro forma revenues) of the Company Entities, on a consolidated basis, for a comparable period.

"Major Insurance Company" means a Person that either is ranked among the top 10 ranked life insurance companies in the United States, based on net premiums written in the United States, as published in the most recent ranking thereof in A.M. Best's Insurance Reports-Life/Health, or that is Affiliated with any such insurance company.

"MasterShare Programs" has the meaning set forth in Section 8.4(f).

"Material Adverse Effect" means (a) (x) with respect to a Person, a material adverse effect on the business, operations, assets, liabilities, financial condition or results of operations of such Person and its Subsidiaries taken as a whole or (y) with respect to a Contributed Business, a material adverse effect on such Contributed Business or the operations, assets, liabilities, financial condition or results of operations of such Contributed Business taken as a whole, in either case

other than any change, event, occurrence or effect occurring on or after the date of this Agreement and relating to (i) changes in the economy or securities markets of the United States or the Territory, including but not limited to market price and trading volume fluctuations and changes in interest rates and exchange rates, (ii) the financial services, retail securities brokerage and securities clearing industries or insurance industry generally, (iii) except for purposes of Section 4.1(k) or 4.2(k), the announcement or performance of this Agreement and the transactions contemplated by this Agreement or any other Transaction Document, including, without limitation, the impact thereof on relationships with employees and customers of the Contributed Business, or (iv) any outbreak of major hostilities in which the United States is involved, any act of terrorism within the United States or any declaration of war by the United States Congress; or (b) with respect to a Person or a Contributed Business, any change, event, occurrence or effect that (x) prevents or materially delays the performance by such Person or its Subsidiaries or the Company Entities of their material obligations under the Transaction Documents taken as a whole or (y) delays the consummation of the transactions contemplated by this Agreement past the date set forth in Section 10.1(c).

"Material Contracts" means, with respect to a Party, each of the following to which such Party or any of its Subsidiaries is a party and which relate primarily to its Contributed Business, or by which its Contributed Assets are bound:

(i) agreements with a Third Party for the purchase of services, materials, supplies, merchandise or equipment (A) in an aggregate amount for the unexpired term thereof equal to or greater than $3,000,000, (B) providing for the payment (or potential liability for payment) of a penalty (including but not limited to any early termination fee, prepayment penalty or similar charge), fee or any other amount during or after the unexpired term thereof equal to or greater than $3,000,000, or (C) having an unexpired term of more than 18 months;

(ii) broker's or finder's agreements as to which the total fees payable thereunder could reasonably be expected to exceed $3,000,000;

(iii) member agreements with trade associations;

(iv) agreements under which administrative and other services are provided to or on behalf of a Third Party and which provide for an aggregate payment for the unexpired term thereof in excess of $3,000,000;

(v) reimbursement agreements, repurchase agreements and equipment leases with a Third Party providing for aggregate payments in excess of $3,000,000;

(vi) Contributed Real Property Leases having an unexpired lease term of more than five years and an annual rent in excess of $500,000;

(vii) material Contributed IP Licenses;

(viii) loan agreements, indentures, letters of credit (including related letter of credit applications and reimbursement obligations), mortgages, security agreements, pledge agreements, deeds of trust, bonds, notes, guarantees, instruments and other contracts relating to the incurrence of indebtedness or obtaining of or extension of credit;

(ix) joint venture, partnership and similar agreements involving a sharing of profits or expenses;

(x) agreements prohibiting or materially restricting the ability of a Party or any of its Subsidiaries to conduct its Contributed Business, operate its Contributed Business in any geographical area or compete with any Person in its Contributed Business;

(xi) agreements which require the referral of any business or require such Party's Contributed Subsidiaries or such Party's Contributed Business to make available investment or other business opportunities or products or services on a priority, equal or exclusive basis;

(xii) agreements, any of the benefits of which will be increased or accelerated by virtue of the consummation of the transactions contemplated hereby in any respect material to the Company Entities as a whole; and

(xiii) agreements which (or the violation of which) would reasonably be expected to have a Material Adverse Effect on the Company.

"Mediation Forum" has the meaning set forth in Section 12.12(a).

"Member" has the meaning set forth in the LLC Agreement.

"Missing Employment Agreements" has the meaning set forth in Section 4.2(m).

"NASD" means the National Association of Securities Dealers, Inc.

"New Prudential Broker LLC" has the meaning set forth in Section 5.3(h).

"Non-Combining Party" means the Party other than the Combining Party.

"Non-Controlling Tax Party" has the meaning set forth in Section 5.8(d).

"Nonqualified Plans" has the meaning set forth in Section 8.4(f).

"NYSE" means the New York Stock Exchange, Inc.

"Objection" has the meaning set forth in Section 2.5(b).

"Offered Interests" has the meaning set forth in Section 9.2(a).

"One Time Costs" means (i) with respect to the contribution of the Contributed Businesses to the Company, the costs incurred by (A) the Company or (B) either Party at the express written request, or with the prior written approval, of the Company (or prior to the Closing, at the express written request or with the prior written approval of the Wachovia Securities officers specified on Schedule 1.1(j)) in connection with the actions specified in Schedule 1.1(e)(i), and (ii) with respect to the contribution and integration of any Acquired Retail Brokerage Business into the Company, the types of costs specified in Schedule 1.1(e)(ii).

"Option Payment" has the meaning set forth in Section 8.4(f).

"Order" means any order, writ, judgment, decree, injunction, award or decision of, or Consent agreement or similar arrangement with, any Governmental Authority.

"Other Combining Person" has the meaning set forth in Section 8.3(b).

"Party" and "Parties" have the respective meanings set forth in the preamble hereto.

"Percentage Interest" has the meaning given to such term in the LLC Agreement.

"Permits" means all licenses, permits, orders, consents, approvals, registrations, authorizations, qualifications and filings issued by, and other Governmental Approvals of, any Governmental Authority.

"Permitted Liens" means (i) Liens for Taxes or other governmental charges which are not yet due and payable or the amount or validity of which is being contested in good faith by appropriate proceedings and for which adequate reserves have been made on the Financial Statements of the Wachovia Contributed Business or the Financial Statements of the Prudential Contributed Business, as the case may be, (ii) Liens of carriers, warehousemen, mechanics, materialmen or other similar Persons or otherwise imposed by Law arising or incurred in the ordinary course of business for sums not yet delinquent

or being contested in good faith by appropriate proceedings and for which adequate reserves have been made on the Financial Statements of the Wachovia Contributed Business or the Financial Statements of the Prudential Contributed Business, as the case may be, (iii) zoning, entitlement, building, land use and similar governmental restrictions, (iv) covenants, conditions, restrictions, easements, rights-of-way and other matters shown in public records and (v) Liens that, individually and in the aggregate with all other Permitted Liens, do not and will not materially detract from the value of any of the Contributed Assets or materially interfere with the use of any of the Contributed Assets as currently used or contemplated to be used.

"Permitted Transferee" means (i) with respect to a Wachovia Member or a Prudential Member, a Wachovia Permitted Transferee or Prudential Permitted Transferee, respectively, and (ii) with respect to a Third Party Member (as defined in the LLC Agreement), (A) any Wholly-Owned Subsidiary of such Third Party Member, and (B) any Person of which such Third Party Member is a Wholly-Owned Subsidiary or any Person that is also a Wholly-Owned Subsidiary of the same ultimate parent of such Third Party Member, and in either clause (i) or (ii), such term includes a transferee

permitted by clauses (i) or (ii) that is a Designated Combining Member or Designated Non-Combining Member (each as defined in the LLC Agreement) in connection with the additional capital contributions or the purchase or receipt of Membership Interests pursuant to Section 3.4 of the LLC Agreement.

"Person" means an individual, corporation, partnership, limited liability company, trust, joint venture, association, unincorporated organization or other entity or a Governmental Authority.

"Pre-Closing Matter" means any event, circumstance or condition existing at any time prior to the effective time of the Closing.

"Preliminary Closing Balance Sheets" has the meaning set forth in Section 2.5(a).

"Preliminary Prudential Closing Balance Sheet" has the meaning set forth in Section 2.5(a).

"Preliminary Valuation" has the meaning set forth in Section 9.4(a).

"Preliminary Wachovia Closing Balance Sheet" has the meaning set forth in Section 2.5(a).

"Preparing Party" has the meaning set forth in Section 2.5(b).

"Product Agreement" means the Product Agreement among the Parties and the Company, substantially in the form of Exhibit E hereto, as the same may be amended, supplemented or otherwise modified from time to time after the Closing Date.

"Prudential" has the meaning set forth in the preamble hereto.

"Prudential Banks" means The Prudential Bank and Trust Company, a state chartered bank, and The Prudential Savings Bank, F.S.B., a federally chartered savings bank.

"Prudential Business IP" means all Intellectual Property (i) owned by Prudential or a Subsidiary of Prudential (including Prudential's Contributed Subsidiaries) and (ii) used or held for use with respect to the Prudential Contributed Business (including Prudential Contributed IP).

"Prudential/Company Interim Agreement" means the Prudential/Company Interim Agreement between Prudential and the Company, which is to be entered into pursuant to Section 2.4 hereof in order to provide on a temporary basis certain services, substantially in the form of Exhibit D hereto, as the same may be amended, supplemented or otherwise modified from time to time after the Closing Date.

"Prudential Contracts" has the meaning set forth in Section 4.2(i).

"Prudential Contributed Assets" means the following assets (real, personal, mixed, tangible or intangible) of Prudential and its Subsidiaries utilized primarily in the conduct of the Prudential Contributed Business (other than the Prudential Excluded Assets):

(i) the Prudential Contributed Equity Interests;

(ii) Prudential's Contributed Real Property;

(iii) Prudential's Contributed Real Property Leases, including any security deposits paid thereunder;

(iv) Prudential's Contributed IP Licenses and, subject to Section 5.4(c), the Prudential Contributed IP;

(v) all furniture, fixtures, equipment (including but not limited to telephones, telephone numbers, switches, servers, computers, printers, scanners, and data processing equipment), machinery, automobiles, office supply inventories, and other tangible personal property utilized primarily in the Prudential Contributed Business;

(vi) all contracts and agreements between Prudential or one of its Subsidiaries, on the one hand, and any retail brokerage customer of the Prudential Contributed Business, on the other, pursuant to which retail brokerage services are to be delivered to such customer, including any assets or rights (including any funds or securities and any commodity positions) of customers that are held by Prudential and its Subsidiaries under the possession and control provisions of Rule 15c3-3 of the Exchange Act pursuant to any such contract or agreement, including for distribution or payment or as collateral;

(vii) all margin and other customer debit balances of Prudential and its Subsidiaries related to the Prudential Contributed Business to the extent reflected on the Final Closing Balance Sheet of the Prudential Contributed Business;

(viii) subject to Section 5.4, the Prudential Contributed Contracts;

(ix) all of the books and records in any form or medium of Prudential and its Subsidiaries related to the Prudential Contributed Business (including personnel records, customer records, transaction histories, correspondence files and other records relating to dealings with customers of the Prudential Contributed Business), other than in any such case, such books and records that relate primarily to Prudential Excluded Businesses;

(x) all rights, claims, credits, causes of action, rights of recovery and rights of set-off of any kind relating to the Prudential Contributed Assets, including any unliquidated rights under manufacturers' and vendors' warranties;

(xi) all Accounts Receivable of the Prudential Contributed Business, including but not limited to FA Notes and other employee loans;

(xii) all customer accounts of the Prudential Contributed Business and the customer relationships and goodwill relating thereto;

(xiii) all federal, state, municipal, foreign and other Permits (including but not limited to those identified on Schedule 4.2(k)(ix)) held or used by Prudential and its Subsidiaries primarily in connection with the Prudential Contributed Business, to the extent transferable;

(xiv) all membership and trading privileges held or used by Wexford Clearing Services Corporation primarily in connection with the Prudential Contributed Business, to the extent transferable, including but not limited to those held by it among those identified on Schedule 4.2(k)(viii);

(xv) all such leases, contracts and agreements of Prudential or its Subsidiaries that relate primarily or exclusively to the Prudential Contributed Business and are not Material Contracts;

(xvi) those assets related to those Prudential Contributed Business Plans that are transferred or assigned to, or assumed by, the Company pursuant to and in accordance with Section 8.4 of this Agreement (the "Prudential Transferred Plans") (other than those assets related exclusively to Pre-Closing Matters of the Prudential Transferred Plans), and those contracts and agreements of Prudential or its Subsidiaries that relate primarily or exclusively to any Prudential Transferred Plan (but only if the Company has expressly agreed to administer such Prudential Transferred Plans);

(xvii) all securities held for investment or resale, including without limitation firm investments and proprietary positions;

(xviii) all customer lists and prospective customer lists, customer information, finding broker lists, databases, trading models, and policies and procedures;

(xix) all credits, prepaid expenses, deferred charges, advance payments, security deposits and prepaid items to the extent that the underlying assets related thereto are Prudential Contributed Assets;

(xx) all cash, bank accounts and deposits with clearing organizations, depositories and similar organizations;

(xxi) manuals, research reports and marketing materials (in any form or medium), including without limitation advertising matter, brochures, catalogues, price lists, mailing lists, distribution lists, photographs, production data, and sales and promotional materials;

(xxii) those assets identified on Schedule 1.1(l) hereto; and

(xxiii) all other assets of Prudential and its Subsidiaries used or held for use primarily in connection with the Prudential Contributed Business, other than any such asset the use of which is being provided to the Company after the Closing pursuant to a Transaction Document.

"Prudential Contributed Business" means the retail securities brokerage and retail sales and trading business, including the correspondent securities clearing and settlement business, currently

conducted by Prudential and its Subsidiaries in the United States and Latin America, which consists of the following businesses and activities of Prudential and its Subsidiaries:

(i) the United States retail brokerage and retail financial advisory business currently referred to by Prudential as its "Private Client Group";

(ii) the United States portion of the business currently referred to by Prudential as "Retail Debt Capital Markets", consisting of the United States sale and trading of debt, preferred and similar securities and related products for retail and institutional clients, including, but not limited to, the activities carried on by Prudential Securities' United States (but not London or Hong Kong) retail trading desk;

(iii) the securities clearing and settlement business currently referred to by Prudential as "Global Processing", including, but not limited to, the business and activities of Wexford Clearing Services Corporation; and

(iv) the retail brokerage and financial advisory business conducted by Prudential Securities and its Subsidiaries in Latin America, including any activities and operations of Prudential and its Subsidiaries of a type similar to the activities described in clauses (i) through (iii) above;

provided, however, that the Prudential Contributed Business shall in each case exclude all Prudential Excluded Assets and Prudential Excluded Liabilities.

"Prudential Contributed Business Filings" has the meaning set forth in Section 4.2(k).

"Prudential Contributed Business Individuals" has the meaning set forth in Section 8.4(a).

"Prudential Contributed Business Plans" means each "employee benefit plan", as such term is defined in Section 3(3) of ERISA, including, without limitation, "multiemployer plans" within the meaning of Section 3(37) of ERISA, and each bonus, incentive or deferred compensation, employment, consulting, employee loan, severance, termination, retention, change of control, stock option, stock appreciation, stock purchase, phantom stock or other equity-based, performance or other employee or retiree benefit or compensation plan, program, arrangement, agreement, policy or understanding, whether written or unwritten, that has been maintained or established by Prudential or any Prudential Related Person and that provides, has provided or may provide benefits or compensation (i) in respect of any Prudential Contributed Business Individual, or (ii) (A) in respect of any former employee or independent contractor of Prudential or any Subsidiary of Prudential and (B) in respect of which any Company Entity may incur any liability.

"Prudential Contributed Contracts" means those Prudential Contracts marked with an asterisk on Schedule 4.2(i) and such other Prudential Contracts, if any, as may be designated by Wachovia as Contributed Assets and Contributed Liabilities in accordance with Section 5.4.

"Prudential Contributed Equity Interests" means the limited liability company interests, stock or other equity interests of the Prudential Contributed Subsidiaries.

"Prudential Contributed IP" means, subject to Section 5.4(c), at Wachovia's option and without any additional consideration, any or all of the Prudential Business IP used or held for use exclusively or primarily in the Prudential Contributed Business, including but not limited to (i) the Prudential Business IP listed on Schedule 1.1(p), (ii) the "BOSS" software and all related Prudential Business IP software, and (iii) any software and trademarks constituting Prudential Business IP related to Wexford Clearing Services Corporation.

"Prudential Contributed Liabilities" means the following: (i) all free credit and other customer balances of Prudential and its Subsidiaries related to the Prudential Contributed Business to the extent such free credit and other balances, including but not limited to amounts withheld on customer transactions and payable to Governmental Authorities, are reflected on the Final Closing Balance Sheet of the Prudential Contributed Business; (ii) all obligations of Prudential and its Subsidiaries under the Prudential Contributed Contracts, subject to the application of Section 5.4, and the other contracts and agreements constituting part of the Prudential Contributed Assets, in each case to the extent not related to any Pre-Closing Matter; (iii) liabilities relating primarily to the Prudential Contributed Business that are fully reflected on the Final Closing Balance Sheet of the Prudential Contributed Business; (iv) all liabilities of the Prudential

Contributed Subsidiaries arising under the Transaction Documents; (v) the Prudential Transferred Plans and those liabilities of Prudential and/or its Subsidiaries to be assumed by the Company Entities pursuant to Section 8.4, as set forth on Schedule 1.1(v), and all other contracts and agreements primarily or exclusively relating to any Prudential Transferred Plan (but only if the Company has expressly agreed to administer such Prudential Transferred Plans); (vi) all Accounts Payable of the Prudential Contributed Business that are fully reflected on the Final Closing Balance Sheet of the Prudential Contributed Business; (vii) securities sold under repurchase agreements and not yet repurchased and attributable to the Prudential Contributed Business; and (viii) those liabilities identified in Schedule 1.1(t) hereto.

"Prudential Contributed Subsidiaries" means the Subsidiaries of Prudential listed on Schedule 1.1(b) hereto; provided that the term "Prudential Contributed Subsidiaries" shall also include their respective predecessor companies and businesses unless the context otherwise requires.

"Prudential Domestic Subsidiary Individuals" means those Prudential Contributed Business Individuals who are employees of Bache Insurance Agency Incorporated, Bache Insurance Agency of Alabama, Inc. and Wexford Clearing Services Corporation.

"Prudential Employment Agreements" has the meaning set forth in Section 4.2(m).

"Prudential Entities" means Prudential and its Subsidiaries other than the Prudential Contributed Subsidiaries.

"Prudential Equity Awards" has the meaning set forth in Section 8.4(f).

"Prudential Excluded Assets" means any asset listed on Schedule 1.1(x) and any asset otherwise not to be transferred or assigned to, or acquired by, the Company in respect of Prudential Transferred Plans pursuant to and in accordance with Section 8.4 of this Agreement.

"Prudential Excluded Businesses" means the businesses, accounts and activities carried on by and the assets, liabilities, employees and management associated with, or Persons currently referred to by Prudential as:

(i) the "Global Derivatives Division", consisting of its Traded Futures business, its Precious Metals business, its Base Metals business, and its Foreign Exchange business;

(ii) the "Institutional Equity Group", consisting of (A) Equity Research, (B) Equity Marketing, (C) Equity Capital Markets, (D) Listed & NASDAQ Equity Trading, (E) Retail Facilitation & Floors, (F) Institutional Equity Sales, (G) International Institutional Equity, and (H) Equity Finance and Administration;

(iii) the "Alternative Investments Group", consisting of one or more (A) distributors of hedge funds, hedge funds of funds and managed futures funds, (B) general

partners, managing owners and investment managers of managed futures funds, (C) co-managers of hedge funds of funds and (D) hedge marketing and research services providers to various distribution channels;

(iv) its "Non-Latin American International Business", consisting of the businesses and activities conducted by Prudential and its Subsidiaries from facilities outside of the United States other than the Latin American offices of Prudential Securities and its Subsidiaries;

(v) its "PI Systems Group", consisting of employees of Prudential and its Subsidiaries primarily engaged in the provision of software development, maintenance and support for Prudential's managed account programs;

(vi) the "eDG Group", consisting of employees of Prudential Securities primarily engaged in the development and maintenance of websites and other electronic business; and

(vii) all other businesses of Prudential and its Subsidiaries other than the Prudential Contributed Business.

"Prudential Excluded Businesses Leased Real Property" means, with

respect to Prudential, any portion of a Contributed Real Property Lease occupied or used by Prudential or one of its Subsidiaries or other Affiliates, or any interest in any portion of a Contributed Real Property Lease held by Prudential or one of its Subsidiaries or other Affiliates, in connection with the Prudential Excluded Businesses located at the addresses set forth on Schedule 5.9(a).

"Prudential Excluded Individuals" has the meaning set forth in Section 8.4(a).

"Prudential Excluded Leased Real Property" means, with respect to Prudential, any real property leased, subleased, occupied or used by Prudential Securities pursuant to a lease, sublease, co-location agreement, sharing agreement or other occupancy agreement or reserve/space bank designation located at the addresses set forth on Schedule 5.9(b).

"Prudential Excluded Liabilities" means any liability, obligation or duty, whether or not related to the Prudential Contributed Business, that is not a Prudential Contributed Liability, including but not limited to Excluded Claims and those liabilities, obligations and duties listed on Schedule 1.1(r) hereto.

"Prudential Intellectual Property License Agreement" means a license agreement substantially in the form of Exhibit G hereto, as the same may be amended, supplemented or otherwise modified from time to time after the Closing Date.

"Prudential Member" means the Initial Prudential Member as of the Closing and thereafter any Prudential Permitted Transferee that then is a Member; provided that such Prudential Member is at all times a Prudential Permitted Transferee.

"Prudential Note" means the promissory note by the Company in favor of Prudential, substantially in the form of Exhibit H hereto, as the same may be amended, supplemented or otherwise modified from time to time after the Closing Date.

"Prudential Pension Plan" has the meaning set forth in Section 8.4(d).

"Prudential Permitted Transferee" has the meaning set forth in Section 9.1(d).

"Prudential Pre-Closing Conversion" has the meaning set forth in Section 2.2(b).

"Prudential Put" has the meaning set forth in Section 9.3(a).

"Prudential Put Event" has the meaning set forth in Section 9.3(a).

"Prudential Put Price" has the meaning set forth in Section 9.3(a).

"Prudential Related Person" means any trade or business, whether or not incorporated, which, together with Prudential or any member of the Prudential Contributed Business, is treated as a single employer under Section 414(b), (c), (m) or (o) of the Code.

"Prudential Savings Plan" has the meaning set forth in Section 8.4(e).

"Prudential Securities" means Prudential Securities Incorporated, a Delaware corporation and a Wholly-Owned Subsidiary of Prudential.

"Prudential Tangible Book Value" means, as of the Closing Date and based on the respective amounts shown on the Final Closing Balance Sheet of the Prudential Contributed Business, the total assets minus goodwill minus total liabilities of the Prudential Contributed Business, as determined in accordance with Section 2.5.

"Prudential Transferees" has the meaning set forth in Section 8.4(a).

"Prudential Transferors" means Prudential and each Subsidiary of Prudential that owns, as of the date hereof or as of the Closing Date, (i) any equity interest in any Prudential Contributed Subsidiary, (ii) any Prudential Contributed Assets or (iii) any Prudential Contributed Liabilities.

"Prudential Transferred Plans" has the meaning set forth in the definition of "Prudential Contributed Assets."

"PS Savings Plan" has the meaning set forth in Section 8.4(e).

"PUP" has the meaning set forth in Section 8.4(d).

"Put/Call Closing" has the meaning set forth in Section 9.3(e).

"Put/Call Event" has the meaning set forth in Section 9.3(b).

"Put/Call Exercise Notice" has the meaning set forth in Section 9.3(c).

"Put/Call Plan" has the meaning set forth in Section 9.3(d).

"Put/Call Price" has the meaning set forth in Section 9.3(b).

"Put/Call Representative" has the meaning set forth in Section 9.3(d).

"RAP" has the meaning set forth in Section 8.4(f).

"Real Property Transfer Documents" means the conveyance deeds and assignments, leases and subleases to be entered into pursuant to Section 5.9, as the same may be amended, supplemented or otherwise modified from time to time.

"Receiving Party" has the meaning set forth in Section 2.5(b).

"Release" means any releasing, disposing, discharging, injecting, spilling, leaking, leaching, pumping, dumping, emitting, escaping, emptying, seeping, dispersal, migration, transporting, placing and the like, including without limitation, the moving of any materials through, into or upon, any land, soil, surface water, ground water or air, or otherwise entering into the environment.

"Retail Brokerage Combination Transaction" means any Combination Transaction in which a Combining Party acquires, is acquired by or otherwise combines or becomes Affiliated with an Acquired Retail Brokerage Business that is either a Large Retail Broker or Small Retail Broker.

"Sale Notice" has the meaning set forth in Section 9.2(a).

"Sale Offer" has the meaning set forth in Section 9.2(a).

"SEC" means the United States Securities and Exchange Commission.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Securities Products" means (i) financial products or services the sale or distribution of which requires that the Person selling or distributing such product or service be licensed or registered as an associated person of a securities broker or dealer under Section 15(a) of the Exchange Act and (ii) fixed rate annuities.

"SERP" has the meaning set forth in Section 8.4(d).

"Severance Benefit Level" has the meaning set forth in Section 8.4(b).

"Shared Service Contracts" means the contracts listed on Schedule 4.2(i) other than those contracts designated with either an asterisk (*) or a double asterisk (**) thereon.

"Significant Subsidiary" means, with respect to a Person, at any time, any Subsidiary that would at such time constitute a "Significant Subsidiary" (as defined in Rule 1-02 of Regulation S-X promulgated by the SEC) of such Person (or such Person's ultimate parent entity).

"Small Contracts" has the meaning set forth in Section 5.4(b).

"Small Retail Broker" means any Acquired Retail Brokerage Business other than a Large Retail Broker.

"Straddle Period" means any taxable period ending after the Closing Date that includes the Closing Date.

"Straddle Period Taxes" means Taxes attributable to a Straddle Period.

"Subsidiary" means, with respect to any Person, (i) any corporation 50% or more of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation is at the time owned by such Person, directly or indirectly through one or more Subsidiaries, and (ii) any other Person (other than an individual), including but not limited to a joint venture, a general or limited partnership or a limited liability company, in which such Person,

directly or indirectly through one or more Subsidiaries, at the time owns at least 50% or more of the ownership interests entitled to vote in the election of managing partners, managers or trustees thereof (or other Persons performing such functions) or acts as the general partner, managing member, trustee (or Persons performing similar functions) of such other Person; provided that, notwithstanding the foregoing, the Company Entities shall not be deemed a Subsidiary of any Wachovia Entity on or after the Closing.

"Surviving Entity" has the meaning set forth in the definition of Change of Control.

"Tag Along Right" has the meaning set forth in Section 9.2(b).

"Tangible Book Value" means, with respect to a Person, total assets minus goodwill minus total liabilities of such Person, as determined in accordance with GAAP.

"Tax Contest" has the meaning set forth in Section 5.8(d).

"Tax Returns" means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"Taxes" means any taxes, assessments, duties, fees, levies or other governmental charges, including, without limitation, all federal, state, local and foreign and other income, franchise, profits, capital gains, capital stock, transfer, sales, use, ad valorem, occupation, property, excise, gross receipts, stamp, license, payroll, withholding, alternative or minimum tax and other taxes, assessments, duties, fees, levies or other governmental charges of any kind whatsoever, and all estimated taxes, additions to tax,

penalties, interest and additional amounts attributable thereto or to the filing of any Tax Return.

"Territory" has the meaning set forth in Section 8.3(a).

"Third Party" means any Person that is neither a Party or a Company Entity nor an Affiliate of either a Party or a Company Entity.

"Third Party Approval" means any Consent of, with or to any Person other than any Governmental Authority.

"Third Party Claims" has the meaning set forth in Section 7.6.

"Third Party Offer" has the meaning set forth in Section 9.2(a).

"Threshold" has the meaning set forth in Section 7.3(a).

"Transaction Documents" means this Agreement, the LLC Agreement, the Wachovia/Company Master Agreement, the Company/Wachovia Letter Agreement, the Prudential/Company Interim Agreement, the Company/Prudential Interim Agreement, the Product Agreement, the Wachovia Intellectual Property License Agreement, the Prudential Intellectual Property License Agreement, the Real Property Transfer Documents, the Prudential Note and the Guarantees and each of the side letters executed on the date hereof.

"Transfer" means any transfer, sale, assignment, pledge, hypothecation or gift of, creation of a security interest in or encumbrance or other Lien on, or any other disposal (whether or not voluntary) of, any Interest or beneficial interest therein.

"Transition Period" has the meaning set forth in Section 8.4(b).

"Treasury Regulations" means the regulations promulgated under the Code as such regulations may be amended from time to time (including the corresponding provisions of succeeding regulations).

"Trust" has the meaning set forth in Section 8.4(f).

"Trust Agreement" has the meaning set forth in Section 8.4(f).

"Wachovia" has the meaning set forth in the preamble hereto.

"Wachovia Bank" means Wachovia Bank, National Association.

"Wachovia Business IP" means all Intellectual Property (i) owned by Wachovia or a Subsidiary of Wachovia (including Wachovia's Contributed Subsidiaries) and (ii) used or held for use with respect to the Wachovia Contributed Business (including Wachovia Contributed IP).

"Wachovia Call" has the meaning set forth in Section 9.3(b).

"Wachovia Call Event" has the meaning set forth in Section 9.3(b).

"Wachovia Call Price" has the meaning set forth in Section 9.3(b).

"Wachovia Common Stock" means the common stock, par value $3.33 1/3 per share, of Wachovia, and any common stock of any successor thereto.

"Wachovia/Company Master Agreement" means the Wachovia/Company Master Agreement between Wachovia and the Company to be entered into pursuant to Section 2.4 hereof, substantially in the form of Exhibit C hereto, as the same may be amended, supplemented or otherwise modified from time to time after the Closing Date.

"Wachovia Contracts" has the meaning set forth in Section 4.1(i).

"Wachovia Contributed Assets" means the following assets (real, personal, mixed, tangible or intangible) of Wachovia and its Subsidiaries utilized primarily in the conduct of the Wachovia Contributed Business (other than the Wachovia Excluded Assets):

(i) the Wachovia Contributed Membership Interests and the other limited liability company interests (or other equity interests) of the other Wachovia Contributed Subsidiaries;

(ii) Wachovia's Contributed Real Property;

(iii) Wachovia's Contributed Real Property Leases, including any security deposits paid thereunder;

(iv) Wachovia's Contributed IP Licenses and the Wachovia Contributed IP;

(v) all furniture, fixtures, equipment (including but not limited to telephones, telephone numbers, switches, servers, computers, printers, scanners, and data processing equipment), machinery, automobiles, office supply inventories, and other tangible personal property utilized primarily in the Wachovia Contributed Business;

(vi) all contracts and agreements between Wachovia or one of its Subsidiaries, on the one hand, and any retail brokerage customer of the Wachovia Contributed Business, on the other, pursuant to which retail brokerage services are to be delivered to such customer, including any assets or rights (including any funds or securities and any commodity positions) of customers that are held by Wachovia and its Subsidiaries under the possession and control provisions of Rule 15c3-3 under the Exchange Act pursuant to any such contract or agreement, including for distribution or payment or as collateral;

(vii) all margin and other customer debit balances of Wachovia and its Subsidiaries related to the Wachovia Contributed Business to the extent reflected on the Final Closing Balance Sheet of the Wachovia Contributed Business;

(viii) the Wachovia Contracts and any Material Contracts entered into by Wachovia or any of its Subsidiaries after the date of this Agreement to the extent permitted by Prudential pursuant to Section 5.1(b)(xiii);

(ix) all of the books and records in any form or medium of the Wachovia Contributed Subsidiaries related to the Wachovia Contributed Business (including personnel records, customer records, transaction histories, correspondence files and other records relating to dealings with customers of the Wachovia Contributed Business), other than in any such case, such books and records that relate primarily to Wachovia Excluded Businesses;

(x) all rights, claims, credits, causes of action, rights of recovery and rights of set-off of any kind relating to the Wachovia Contributed Assets, including any unliquidated rights under manufacturers' and vendors' warranties;

(xi) all Accounts Receivable of the Wachovia Contributed Business, including but not limited to FA Notes and other employee loans;

(xii) all customer accounts of the Wachovia Contributed Business and the customer relationships and goodwill relating thereto;

(xiii) all federal, state, municipal, foreign and other Permits

(including but not limited to those identified on Schedule 4.1(k)(ix)) held or used by the Wachovia Contributed Subsidiaries in connection with the Wachovia Contributed Business, to the extent transferable;

(xiv) all membership and trading privileges held or used by the Wachovia Contributed Subsidiaries in connection with the Wachovia Contributed Business, to the extent transferable, including but not limited to those identified on Schedule 4.1(k)(viii);

(xv) all such leases, contracts and agreements of Wachovia or its Subsidiaries that relate primarily or exclusively to the Wachovia Contributed Business and are not Material Contracts;

(xvi) those assets related to those Wachovia Contributed Business Plans that are contributed to the Company, or assumed by the Company, pursuant to Section 8.4 of this Agreement (the "Wachovia Transferred Plans") (other than those assets related exclusively to Pre-Closing Matters of the Wachovia Transferred Plans), and those contracts and agreements of Wachovia or its Subsidiaries that relate primarily or exclusively to any Wachovia Transferred Plan (but only if the Company has expressly agreed to administer such Wachovia Transferred Plans);

(xvii) all securities held for investment or resale, including without limitation firm investments and proprietary positions;

(xviii) all customer lists and prospective customer lists, customer information, finding broker lists, databases, trading models, and policies and procedures;

(xix) all credits, prepaid expenses, deferred charges, advance payments, security deposits and prepaid items to the extent that the underlying assets related thereto are Wachovia Contributed Assets;

(xx) all cash, bank accounts and deposits with clearing organizations, depositories and similar organizations;

(xxi) manuals, research reports and marketing materials (in any form or medium), including without limitation advertising matter, brochures, catalogues, price lists, mailing lists, distribution lists, photographs, production data, and sales and promotional materials;

(xxii) those assets identified on Schedule 1.1(k) hereto; and

(xxiii) all other assets of Wachovia and its Subsidiaries used or held for use primarily in connection with the Wachovia Contributed Business, other than any such asset the use of which is being provided after the Closing pursuant to a Transaction Document.

"Wachovia Contributed Business" means the retail securities brokerage business, including the correspondent securities clearing and settlement business, currently conducted by Wachovia and its Subsidiaries in the United States, which consists of the following businesses and activities of Wachovia and its Subsidiaries:

(i) the retail securities brokerage and financial advisory business currently referred to by Wachovia as its "Private Client Group";

(ii) the Bank Channel;

(iii) Wachovia's "Independent Channel" and "Direct Channel", which consist of Wachovia's FiNet business, Wachovia's retail securities brokerage related e-commerce activities, and Wachovia's discount trading and online brokerage business; and

(iv) the securities clearing and settlement business currently referred to by Wachovia as its "Correspondent Business";

provided, however, that the Wachovia Contributed Business shall in each case exclude all Wachovia Excluded Assets and Wachovia Excluded Liabilities.

"Wachovia Contributed Business Individuals" has the meaning set forth in Section 8.4(a).

"Wachovia Contributed Business Plans" means each "employee benefit plan", as such term is defined in Section 3(3) of ERISA, including, without limitation, "multiemployer plans" within the meaning of Section 3(37) of ERISA, and each bonus, incentive or deferred compensation, employment, consulting, employee loan, severance, termination, retention, change of control, stock option, stock appreciation, stock purchase, phantom stock or other equity-based, performance or other employee or retiree benefit or compensation plan, program, arrangement, agreement, policy or

understanding,

whether written or unwritten, that has been maintained or established by Wachovia or any Wachovia Related Person and that provides, has provided or may provide benefits or compensation (i) in respect of any Wachovia Contributed Business Individual, or (ii) (A) in respect of any former employee or independent contractor of Wachovia or any Subsidiary of Wachovia and (B) in respect of which any Company Entity may incur any liability.

"Wachovia Contributed IP" means all Wachovia Business IP listed or described on Schedule 1.1(o).

"Wachovia Contributed Liabilities" means the following: (i) all free credit and other customer balances of Wachovia and its Subsidiaries related to the Wachovia Contributed Business to the extent such free credit and other balances, including but not limited to amounts withheld on customer transactions and payable to Governmental Authorities, are reflected on the Final Closing Balance Sheet of the Wachovia Contributed Business; (ii) all obligations of Wachovia and its Subsidiaries under the Wachovia Contracts and the other contracts and agreements constituting part of the Wachovia Contributed Assets, in each case to the extent not related to any Pre-Closing Matter; (iii) liabilities relating primarily to the Wachovia Contributed Business that are fully reflected on the Final Closing Balance Sheet of the Wachovia Contributed Business; (iv) all liabilities of the Wachovia Contributed Subsidiaries arising under the Transaction Documents; (v) the Wachovia Transferred Plans and those liabilities of Wachovia and/or its Subsidiaries to be assumed or retained by the Company Entities pursuant to Section 8.4, as set forth on Schedule 1.1(u), and all other contracts and agreements primarily or exclusively relating to any Wachovia Transferred Plan (but only if the Company has expressly agreed to administer such Wachovia Transferred Plans); (vi) all Accounts Payable of the Wachovia Contributed Business that are fully reflected on the Final Closing Balance Sheet of the Wachovia Contributed Business; (vii) securities sold under repurchase agreements and not yet repurchased and attributable to the Wachovia Contributed Business; and (viii) those liabilities identified on Schedule 1.1(s) hereto.

"Wachovia Contributed Membership Interests" means the limited liability company interests (or other equity interests) of those Wachovia Contributed Subsidiaries directly held by each Initial Wachovia Member following consummation of the Wachovia Reorganization.

"Wachovia Contributed Subsidiaries" means as of any date the Subsidiaries of Wachovia engaged in the Wachovia Contributed Business as of such date, as listed on Schedule 1.1(a) hereto (to the extent in existence on the date hereof); provided that the term "Wachovia Contributed Subsidiaries" shall (i) also include their respective predecessor companies and businesses unless the context otherwise requires, and (ii) in the case of Wachovia Contributed Subsidiaries to be formed after the date of this Agreement, refer to such entities from and after the date of their formation. For purposes of Section 4.1 only, Wachovia Contributed Subsidiaries will also include the Bank Channel.

"Wachovia Contributed Subsidiary Filings" has the meaning set forth in Section 4.1(k).

"Wachovia Entities" means Wachovia and its Subsidiaries other than the Wachovia Contributed Subsidiaries.

"Wachovia Excluded Assets" means any asset listed on Schedule 1.1(w) and any asset otherwise not to be contributed to, or acquired by, the Company in respect of Wachovia Transferred Plans pursuant to and in accordance with Section 8.4 of this Agreement.

"Wachovia Excluded Businesses" means Wachovia's corporate and investment banking, securities underwriting, derivatives (including but not limited to equity derivatives), fixed income, international, merchant banking, mutual funds, wealth management, asset management, banking and trust businesses and all other businesses, accounts and activities of or carried on by, and the assets, liabilities, employees and management associated with, Wachovia and its Subsidiaries, including the Wachovia Contributed Subsidiaries, other than the Wachovia Contributed Business.

"Wachovia Excluded Individuals" has the meaning set forth in Section 8.4(a).

"Wachovia Excluded Liabilities" means any liability, obligation or duty, whether or not related to the Wachovia Contributed Business, that is

not a Wachovia Contributed Liability, including but not limited to Excluded Claims and those liabilities, obligations and duties listed on Schedule 1.1(q) hereto.

"Wachovia Intellectual Property License Agreement" means a license agreement substantially in the form of Exhibit F hereto, as the same may be amended, supplemented or otherwise modified from time to time after the Closing Date.

"Wachovia Member" means the Initial Wachovia Member as of the Closing and thereafter any Wachovia Permitted Transferee that then is a Member; provided that such Wachovia Member is at all times a Wachovia Permitted Transferee.

"Wachovia Pension Plan" has the meaning set forth in Section 8.4(d).

"Wachovia Permitted Transferee" has the meaning set forth in Section 9.1(d).

"Wachovia Related Person" means any trade or business, whether or not incorporated, which, together with Wachovia or any member of the Wachovia Contributed Business, is treated as a single employer under Section 414(b), (c), (m) or (o) of the Code.

"Wachovia Reorganization" has the meaning set forth in Section 2.2(a).

"Wachovia Securities" means Wachovia Securities, Inc., which as of the date of this Agreement is a Delaware corporation and an indirect Wholly-Owned Subsidiary of Wachovia.

"Wachovia Tangible Book Value" means, as of the Closing Date and based on the respective amounts shown on the Final Closing Balance Sheet of the Wachovia Contributed Business, the total assets minus goodwill minus total liabilities of the Wachovia Contributed Business, as determined in accordance with Section 2.5.

"Wachovia Transferees" has the meaning set forth in Section 8.4(a).

"Wachovia Transferred Plans" has the meaning set forth in the definition of "Wachovia Contributed Assets."

"WARN" has the meaning set forth in Section 4.1(n).

"Wholly-Owned Subsidiary" of a Person means a Subsidiary of such Person, all of the issued and outstanding shares (other than directors' qualifying shares) of the capital stock or other ownership interests, including but not limited to limited liability company interests, of which shall at the time be owned by such Person or one or more of its Wholly-Owned Subsidiaries or by such Person and one or more of its Wholly-Owned Subsidiaries.

ARTICLE 2

FORMATION OF VENTURE; CLOSING; RELATED TRANSACTIONS

Section 2.1 Formation of Company. Following execution of this Agreement (but in any event prior to the Closing), Wachovia will cause the Company to be formed as a direct or indirect Wholly-Owned Subsidiary by filing the Certificate of Formation with the Secretary of State of the State of Delaware and any other required documents with such other applicable Governmental Authorities as Wachovia shall determine.

Section 2.2 Transactions Prior to the Closing. Subject to the terms and conditions hereof, prior to the Closing:

(a) Wachovia shall carry out a reorganization, as further described in Schedule 2.2(a), such that pursuant thereto and upon completion thereof, (i) the Wachovia Contributed Business shall be transferred to and acquired by the Wachovia Contributed Subsidiaries, to the extent not already conducted or owned by the Wachovia Contributed Subsidiaries, and any Wachovia Excluded Businesses that were conducted therein shall be transferred to and acquired by one or more Wachovia Entities, (ii) the Wachovia Contributed Subsidiaries shall be converted into limited liability companies (or other disregarded entities for U.S. federal income tax purposes) with limited liability company operating agreements (or comparable organizational documents) in form and substance reasonably satisfactory to the Parties, (iii) the Wachovia Contributed Subsidiaries shall own and be obligated in respect of all of the Wachovia Contributed Assets and the Wachovia Contributed Liabilities, respectively, (iv) except for assets or liabilities that may not be extracted, assigned or removed as a matter of Law, and for which, in the case of liabilities, Wachovia would

have an obligation to fully indemnify Prudential and the Company Entities hereunder, the Wachovia Contributed Subsidiaries shall not own or be

obligated in respect of any assets or liabilities other than the Wachovia Contributed Assets and the Wachovia Contributed Liabilities and such as may arise pursuant to, or as may be permitted by, this Agreement and the transactions contemplated hereby, (v) the Initial Wachovia Member shall own, directly or indirectly, all of the issued and outstanding limited liability company interests (or other equity interests) of the Wachovia Contributed Subsidiaries, and (vi) all intercompany Tax accounts, if any, of each Wachovia Contributed Subsidiary shall have been settled by it or by Wachovia on its behalf (all of the foregoing actions described in this Section 2.2(a), collectively, the "Wachovia Reorganization").

(b) Prudential shall, as further described in Schedule 2.2(b), (i) cause all Prudential Excluded Assets and Prudential Excluded Liabilities owned by, and all Prudential Excluded Businesses conducted by, each of the Prudential Contributed Subsidiaries or to which they are subject, to be transferred to and acquired and assumed by one or more Prudential Entities, (ii) cause each of the Prudential Contributed Subsidiaries (except as set forth on Schedule 4.2(b)) to be converted into entities which are disregarded entities for U.S. federal income tax purposes with limited liability company operating agreements (or comparable organizational documents) in form and substance reasonably satisfactory to the Parties, (iii) except for assets or liabilities that may not be extracted, assigned or removed as a matter of Law, and for which, in the case of liabilities, Prudential would have an obligation to fully indemnify Wachovia and the Company Entities hereunder, cause the Prudential Contributed Subsidiaries to neither own nor be obligated in respect of any assets or liabilities other than the Prudential Contributed Assets and the Prudential Contributed Liabilities and such as may arise pursuant to, or as may be permitted by, this Agreement and the transactions contemplated hereby, and (iv) cause all intercompany Tax accounts, if any, of each Prudential Contributed Subsidiary to be settled by it or by Prudential on its behalf (all of the foregoing actions described in this Section 2.2(b), collectively, the "Prudential Pre-Closing Conversion").

Section 2.3 Time and Place of the Closing. Subject to the provisions of Article 6, the closing (the "Closing") of the transactions contemplated hereby shall take place at the offices of Simpson Thacher & Bartlett, at 10:00 a.m., New York time, on the first Business Day of the calendar month that is not less than five Business Days following the date on which the conditions set forth in Article 6 have been satisfied or waived, excluding conditions that by their terms are to be satisfied on the Closing Date, or such other place, time and/or date as is mutually agreed upon by the Parties. The date on which the Closing occurs is herein called the "Closing Date." The Closing shall be effective as of 12:01 a.m., New York time, on the Closing Date.

Section 2.4 Deliveries and Other Actions at the Closing. On the Closing Date:

(a) Each Party shall cause each of its Initial Members to execute and deliver the LLC Agreement;

(b) Wachovia shall cause the Initial Wachovia Member to transfer, assign and deliver to the Company, as a capital contribution to the Company, all of its right, title and interest in and to the Wachovia Contributed Membership Interests, free and clear of all

Liens, other than Permitted Liens and Liens created pursuant to the Transaction Documents, and in consideration therefor, Wachovia shall cause the Company to issue Membership Interests to the Initial Wachovia Member with an aggregate Percentage Interest equal to 62%;

(c) Prudential shall, and shall cause each of the Prudential Transferors to, transfer, assign and deliver to the Company, or to a Wachovia Contributed Subsidiary designated by Wachovia (each a "Designated Company Subsidiary"), as a capital contribution to the Company, all of their respective right, title and interest in and to the Prudential Contributed Assets, free and clear of all Liens, other than Permitted Liens and Liens created pursuant to the Transaction Documents and in consideration therefor, Wachovia shall cause the Company to (i) issue Membership Interests to the Initial Prudential Member, on behalf of the Prudential Transferors, with an aggregate Percentage Interest equal to 38% and (ii) assume, or cause a Designated Company Subsidiary to assume, the Prudential Contributed Liabilities; provided, however, that, to the extent provided in Section 5.3, in lieu of such contribution to the Designated Company Subsidiary, Prudential shall, and shall cause the other Prudential

Transferors to, make such capital contribution to New Prudential Broker LLC in accordance with Section 5.3 and cause all of the limited liability company interests in New Prudential Broker LLC to be contributed as a capital contribution to the Company; it being understood that, in selecting the appropriate Designated Company Subsidiaries, the Parties will cooperate to ensure that such Designated Company Subsidiaries have adequate capital to support the Prudential Contributed Liabilities being transferred to and assumed by them at the Closing.

(d) The Parties shall cause the Company and each of their respective Initial Members to execute and deliver a written agreement (which shall in each case be in form and substance reasonably satisfactory to the Parties) to be bound by the terms and conditions of this Agreement that are applicable to it (which in the case of the Initial Members shall be limited to the provisions of Article 8 (other than Section 8.4) and Articles 9, 10, 11 and 12);

(e) The Parties shall, or shall cause their respective Initial Members to, contribute to the Company an amount of cash equal to their respective initial Percentage Interests of the estimated One Time Costs that have been and are expected to be incurred within 60 days following the Closing Date by the Company Entities (and have not been previously paid pursuant to Section 12.1);

(f) Wachovia and the Company shall execute and deliver the Wachovia/Company Master Agreement;

(g) Prudential and the Company shall execute and deliver the Prudential/Company Interim Agreement;

(h) The Company and Prudential shall execute and deliver the Company/Prudential Interim Agreement;

(i) The Company and each other Person to be a party thereto shall execute and deliver the Product Agreement;

(j) The Company and Wachovia shall execute and deliver the Wachovia Intellectual Property License Agreement;

(k) The Company and Prudential shall execute and deliver the Prudential Intellectual Property License Agreement;

(l) The Parties shall, and shall cause their respective Subsidiaries to, execute and deliver to the other parties thereto, the Real Property Transfer Documents;

(m) As shown on the balance sheet as of December 31, 2002 included in the Financial Statements of the Prudential Contributed Business, the Company shall assume the $417 million intercompany obligation of Prudential Securities to Prudential by executing and delivering the Prudential Note;

(n) Each Party shall execute and deliver a Guarantee;

(o) Wachovia Bank and the Company shall execute and deliver the Company/Wachovia Letter Agreement;

(p) The Parties and the Company shall, and shall cause their respective applicable Subsidiaries to, execute and deliver such additional instruments of assignment and conveyance as are necessary and appropriate to convey the Wachovia Contributed Membership Interests and the Prudential Contributed Assets;

(q) The Company shall, and shall cause the Designated Company Subsidiaries to, execute and deliver such additional assignments and instruments of assumption as may be appropriate for the assumption by the Company and the Designated Company Subsidiaries all of the Prudential Contributed Liabilities; and

(r) The Parties shall execute and deliver any other agreement mutually agreed by the Parties to be executed on the Closing Date.

Section 2.5 Post-Closing Adjustments.

(a) Within 60 days after the Closing Date: (i) Wachovia shall prepare and deliver (or cause to be prepared and delivered) to Prudential and the Company a balance sheet for the Wachovia Contributed Business as of the Closing Date (immediately prior to giving effect to the Closing) (the "Preliminary Wachovia Closing Balance Sheet"), which shall be prepared in accordance with GAAP applied on a consistent basis (except to the extent specified in Schedule 2.5(a)(i)) with the preparation of the Financial Statements of the Wachovia Contributed Business, and shall be accompanied by the final draft of the auditors' report thereon from Wachovia's

accountants, and (ii) Prudential shall prepare and deliver (or cause to be prepared and delivered) to Wachovia and the Company a balance sheet for the Prudential Contributed Business as of the Closing Date (immediately prior to giving effect to the Closing) (the "Preliminary Prudential Closing

Balance Sheet" and collectively with the Preliminary Wachovia Closing Balance Sheet, the "Preliminary Closing Balance Sheets"), which shall be prepared in accordance with GAAP applied on a consistent basis (except to the extent specified in Schedule 2.5(a)(ii)) with the preparation of the Financial Statements of the Prudential Contributed Business, and shall be accompanied by the final draft of the auditors' report thereon from Prudential's accountants. Each of the Parties shall pay the fees and disbursements of its accountants. The Company and the Parties shall make reasonably available to each other and to their respective accountants all relevant books and records, any work papers (including accountants' work papers) and other supporting documentation relating to the Preliminary Closing Balance Sheets.

(b) In the event that, within 30 days after delivery by one Party (the "Preparing Party") to the other Party (the "Receiving Party") and the Company of the Preparing Party's Preliminary Closing Balance Sheet, such Receiving Party determines that the Preliminary Closing Balance Sheet so received has not been prepared on a basis consistent with the requirements of Section 2.5(a), the Receiving Party shall have the right (but not the obligation) to, on or before the last day of such 30-day period, deliver a written objection (an "Objection") to the Company and the Preparing Party, setting forth, in reasonable detail, the basis of the Objection and the adjustments to such Preliminary Closing Balance Sheet which the Receiving Party believes should be made, and the Parties shall be deemed to have accepted any items not specifically disputed in the Objection; provided that, for a period of fifteen days following a Receiving Party's receipt of an Objection to such Receiving Party's Preliminary Closing Balance Sheet, the Receiving Party shall have the right (but not the obligation) to deliver to the Company and the Preparing Party additional objections to the Preparing Party's Preliminary Closing Balance Sheet that are based on similar arguments and are of the same type as the objections that were made by the Preparing Party to the Receiving Party's Preliminary Closing Balance Sheet. Failure to so notify the Company and the Preparing Party shall constitute acceptance and approval of such Preliminary Closing Balance Sheet. The Parties shall then have 30 days following the date the Preparing Party receives any Objection to review and respond to such Objection. If the Parties are unable to resolve all of their disagreements with respect to the foregoing by the 30th day following the Preparing Party's receipt of an Objection (including, if later, any additional objection made pursuant to the proviso of the second preceding sentence), after having used their good faith efforts to reach a resolution, they shall refer their remaining differences to Ernst & Young LLP or another nationally recognized firm of independent public accountants as to which the Parties shall mutually agree (the "CPA Firm"), who shall, acting as experts in accounting and not as arbitrators, determine on a basis consistent with the requirements of Section 2.5(a), and only with respect to the specific remaining accounting-related differences set forth in the applicable Objection and so submitted to the CPA Firm, whether and to what extent, if any, the relevant Preliminary Closing Balance Sheet(s) require(s) adjustment in order to comply with the provisions of Section 2.5(a). In the event that Objections are pending with respect to both Preliminary Closing Balance Sheets, the Parties shall submit all such objections to the same CPA Firm to be considered and resolved at the same time. The Parties shall request the CPA Firm to use its best efforts to render its determination within 45 days of its engagement. The CPA Firm's determination shall be conclusive and binding upon the Company and

the Parties. The Company and the Parties shall make reasonably available to the CPA Firm all relevant books and records, any work papers (including those of the Parties' respective accountants) and supporting documentation relating to the Preliminary Closing Balance Sheets and all other items reasonably requested by the CPA Firm in order to render its determination. The "Final Closing Balance Sheet" of the Wachovia Contributed Business or the Prudential Contributed Business, as the case may be, shall be (i) the applicable Preliminary Closing Balance Sheet if (x) no Objection is delivered during the initial 30-day period (or, if applicable, the subsequent 15-day period) specified above or (y) the Parties so agree, (ii) the applicable Preliminary Closing Balance Sheet, adjusted in accordance with the Objection, in the event that (x) the Preparing Party does not respond to the Objection during the 30-day period specified above following receipt of the Objection or (y) the Parties so agree, or (iii) the applicable Preliminary Closing Balance Sheet, as adjusted pursuant to the agreement of the Parties or as adjusted by the CPA Firm as provided above. The Final Closing Balance Sheet shall be used solely for determining

whether a payment is due by either Party under Section 2.5(c) below. All fees and disbursements of the CPA Firm shall be shared equally by the Parties.

(c) If the Wachovia Tangible Book Value reflected in the Final Closing Balance Sheet of the Wachovia Contributed Business is less than $1.0 billion, then Wachovia shall pay such deficiency, plus interest thereon at the applicable Federal Funds Rate during the period from the Closing Date to the date of such payment, to the Company in immediately available funds within 3 Business Days after the ultimate determination of such Final Closing Balance Sheet. If the Wachovia Tangible Book Value reflected in the Final Closing Balance Sheet of the Wachovia Contributed Business is more than $1.0 billion, the Company shall pay (without any contribution from Prudential or Wachovia) an amount equal to such excess, plus interest thereon at the applicable Federal Funds Rate during the period from the Closing Date to the date of such payment, to Wachovia in immediately available funds within 3 Business Days after the ultimate determination of such Final Closing Balance Sheet. If the Prudential Tangible Book Value reflected in the Final Closing Balance Sheet of the Prudential Contributed Business is less than $1.0 billion, then Prudential shall pay such deficiency, plus interest thereon at the applicable Federal Funds Rate during the period from the Closing Date to the date of such payment, to the Company in immediately available funds within 3 Business Days after the ultimate determination of such Final Closing Balance Sheet. If the Prudential Tangible Book Value reflected in the Final Closing Balance Sheet of the Prudential Contributed Business is more than $1.0 billion, the Company shall pay (without any contribution from Prudential or Wachovia) an amount equal to such excess, plus interest thereon at the applicable Federal Funds Rate during the period from the Closing Date to the date of such payment, to Prudential in immediately available funds within 3 Business Days after the ultimate determination of such Final Closing Balance Sheet. Any such payments, as well as any payments made pursuant to Section 2.4(e), shall be treated as capital contributions or adjustments necessary for consistency with the agreed-upon capital allocation of the Parties' initial Percentage Interests set forth in Sections 2.4(b) and (c) and shall not change such allocation in any way. Any payment to a Party pursuant to this Section 2.5(c) shall be effected in a manner that, to the extent possible, does not result in recognition of income to that Party or its Subsidiaries for federal income tax purposes.

(d) If Ernst & Young is unable or unwilling to serve in the capacity specified in clause (b) above (or in Section 11.1(f)) and the Parties are unable to agree on another nationally recognized firm of independent public accountants to act as the CPA Firm within five Business Days following the 30th day following the Preparing Party's response to the Objection (or following a Party's request to submit remaining objections to the CPA Firm in accordance with Section 11.1(f)), the Parties shall select another nationally recognized firm of independent public accountants to act as the CPA Firm as follows: (i) on such fifth Business Day, each Party shall deliver to the other Party a list with three such accounting firms that currently audit NYSE-listed companies for purposes of their annual reports filed on Form 10-K with the SEC, none of which shall have been retained by such Party within the prior two-year period. Each Party shall cross off two of such accounting firms from the list it receives from the other Party. The CPA Firm shall be selected from the remaining two firms by lot.

ARTICLE 3

BANK CHANNEL ARRANGEMENTS

Section 3.1 The Bank Channel.

(a) During the period following the Closing Date through the earliest of (i) the date the Wachovia Entities cease to maintain a Bank Channel, (ii) the termination of this Agreement and (iii) the date on which the Wachovia Members shall have Transferred all of their Membership Interests to a Third Party, the Company shall have the exclusive right to offer Securities Products in and through the Bank Channel; provided that (A) to the extent not prohibited pursuant to Section 8.3, Wachovia and its Affiliates may offer Securities Products through the Bank Channel and (B) Prudential may offer Securities Products through the Bank Channel to the extent provided in the Product Agreement.

(b) During each year in which Section 3.1(a) is in effect, the Company shall pay or cause to be paid to Wachovia on a monthly basis the referral or other fees then in effect for such year. Such referral fees with respect to the calendar year in which the Closing occurs are set forth on Schedule 3.1(b) hereto. From time to time, the Company may renegotiate with Wachovia the referral and other amounts and arrangements relating to the Bank Channel. The Company may alter these arrangements with Wachovia in its discretion so long as the change is not materially adverse to the Company. Any change shall be approved by the Board of Managers of the Company before

becoming effective.

(c) The Parties agree that: (i) Wachovia Bank shall retain sole control (subject to supervisory responsibilities imposed upon the Company by applicable Law) over the activities of Bank Channel Employees; (ii) Wachovia Bank shall determine the number of Bank Channel Employees supporting the Bank Channel at any given time; (iii) the Bank Channel shall not include any Persons associated with Wachovia's Evergreen business or any accounts, employees or activities of Wachovia's Wealth Management group, which distributes products and services to high net worth individuals, including but not limited to private banking, trust, personal trust, investment and asset management, insurance services (including but not limited to life and property and casualty), planning (including

but not limited to financial, estate and Tax planning) and charitable and consulting services; and (iv) the Bank Channel shall not include any accounts, employees or activities of Wachovia's Corporate and Investment Banking group.

Section 3.2 Support for the Prudential Banks.

(a) After receipt of notification from Prudential prior to the first anniversary of the Closing Date that Prudential plans to cause the loan portfolios of the Prudential Banks to be sold, either to Wachovia based on its bid as contemplated in Section 3.2(b) or to a Third Party, Wachovia agrees at any time prior to such first anniversary to provide reasonable operational consulting services in support of the sale and transfer of servicing of such loan portfolios. Further, Wachovia agrees to provide operational, financial and technical support for the purpose of establishing substitute loan, credit and banking services between Wachovia and the Company, subject to Wachovia's right to approve all scheduling matters relating to such support.

(b) Following receipt of the notification from Prudential referred to in Section 3.2(a), Wachovia agrees to perform due diligence, as it deems reasonable and appropriate, on the loan portfolios of the Prudential Banks, for the purpose of providing a bid, on market-based terms, to purchase such loans, at any time prior to the first anniversary of the Closing Date.

(c) After receipt of notification from Prudential of plans to wind-up the operations of the Prudential Banks, the Wachovia Entities and the Company Entities agree to provide, at any time prior to the first anniversary of the Closing Date, reasonable consulting services at no charge, in support of operational and financial activities associated with the closing of the Prudential Banks; provided that such assistance shall not impair in any material respect the conduct of the business of any Wachovia Entity or Company Entity. Prudential agrees to indemnify Wachovia and the Company and their Affiliates (including but not limited to their respective directors, officers, employees, agents and representatives) for any and all Losses arising out of any Third Party Claim that may arise as a result of its or their involvement in any and all activities associated with its or their efforts in support of closing the Prudential Banks.

Section 3.3 Wachovia Research Activities. With respect to each twelve-month period commencing on the Closing Date, to the extent the Wachovia Entities make available equity research services to the Company in accordance with an agreement to be entered into between the Company and the appropriate Wachovia Entities, the Company shall, or shall cause another appropriate Company Entity to, pay to Wachovia or other relevant Wachovia Entity making such services available an amount as set forth on Schedule 3.3; provided that for each such twelve-month period commencing on the fourth anniversary of the Closing Date and on each anniversary thereafter, the amounts payable for the 12-month period following such anniversary shall be increased by the percentage that the Consumer Price Index for the 12-month period ending on such anniversary has increased, if at all, in comparison to the Consumer Price Index for the 12-month period ending on the immediately preceding anniversary of the Closing Date.

ARTICLE 4

REPRESENTATIONS AND WARRANTIES

Section 4.1 Representations and Warranties of Wachovia. Wachovia represents and warrants to Prudential, as of the date hereof, that except as set forth herein by reference to a Schedule identified to a subsection of this Section 4.1 and except to the extent that any of the representations and warranties set forth below relate or apply to the Wachovia Excluded Assets, the Wachovia Excluded Liabilities or Wachovia Excluded Businesses:

(a) Organization, Standing and Power of Wachovia and Subsidiaries. Wachovia is a corporation duly organized, validly existing and in good standing under the Laws of the State of North Carolina. Wachovia has all requisite corporate power and authority to execute and deliver this Agreement and any other Transaction Document to which it will be a party, to perform its obligations hereunder and thereunder, and to consummate the transactions contemplated hereby and thereby. Each Subsidiary of Wachovia to become a party to a Transaction Document will have at the Closing all requisite corporate or comparable power and authority to execute and deliver each Transaction Document to be executed and delivered by it, to perform its obligations hereunder and thereunder, and to consummate the transactions contemplated hereby and thereby.

(b) Wachovia Contributed Subsidiaries. Each Wachovia Contributed Subsidiary is (or in the case of Wachovia Contributed Subsidiaries formed after the date hereof, will be by Closing) an entity duly organized, validly existing and in good standing under the Laws of its jurisdiction of organization, and each Wachovia Contributed Subsidiary will be at the Closing a limited liability company (or such other type of comparable entity as may be disregarded for U.S. federal income tax purposes) duly organized, validly existing and in good standing under the Laws of its jurisdiction of organization. Each Wachovia Contributed Subsidiary has (or in the case of Wachovia Contributed Subsidiaries formed after the date hereof, will have by Closing) all requisite corporate or comparable power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted or as proposed to be conducted from and after the Closing. Each Wachovia Contributed Subsidiary will have at the Closing all requisite limited liability company or comparable power and authority to own, lease and operate the Wachovia Contributed Assets and to carry on the Wachovia Contributed Business. Each Wachovia Contributed Subsidiary is (or in the case of Wachovia Contributed Subsidiaries formed after the date hereof, will be) duly qualified and in good standing as a foreign entity authorized to transact business in each jurisdiction where the conduct of its business or the ownership of its properties requires such qualification other than in jurisdictions where the failure to be so qualified, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect on the Wachovia Contributed Subsidiaries. Wachovia has made available to Prudential complete and correct copies of (i) the charter, bylaws or comparable organizational documents of each Wachovia Contributed Subsidiary as in effect on the date hereof and (ii) the minute books or comparable records of each Wachovia Contributed Subsidiary, which at the date such books and records were made available reflected in all material respects all corporate or comparable actions taken by the stockholders or comparable equity holders, and directors

or comparable governing body (and any committee thereof), of each Wachovia Contributed Subsidiary.

(c) Authority and Validity. The execution and delivery of this Agreement and each other Transaction Document to be executed and delivered by Wachovia and its Subsidiaries, the performance of their respective obligations hereunder and thereunder and the consummation of the transactions contemplated hereby and thereby have been, or in the case of Transaction Documents not yet executed and delivered on the date hereof, will be by the Closing, duly and validly authorized by all necessary corporate or comparable action on the part of such Person. This Agreement and each other Transaction Document to be executed and delivered by Wachovia or any of its Subsidiaries have been, or in the case of Transaction Documents not yet executed on the date hereof will be by the Closing, duly executed and delivered and are (or will be by Closing) valid and binding obligations of Wachovia or such Subsidiary, as applicable, that is a party thereto, enforceable against it in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar Laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law), and an implied covenant of good faith and fair dealing.

(d) No Conflicts. Subject to obtaining the Governmental Approvals and Third Party Approvals contemplated in Section 4.1(e), the execution and delivery of this Agreement and each other Transaction Document intended to be executed by Wachovia and its Subsidiaries, and the performance of their respective obligations hereunder and thereunder and the consummation of the transactions contemplated hereby and thereby do not (i) conflict with or result in a breach of any provision of any of their respective articles of incorporation or by-laws or comparable organizational documents, or (ii) conflict with, result in a breach of any provision of, constitute a default (or an event which with notice or lapse of time or both would become a default) or give to any Third Party any right of termination, cancellation, amendment or acceleration under, or result in the creation of a Lien on any of their respective properties under, any of the terms, conditions or

provisions of any note, bond, debenture, mortgage, indenture, license, lease, contract, agreement or other instrument or obligation to which any of them is a party, or by which any of them or any of their respective properties may be bound or subject, or (iii) violate or conflict with any Law applicable to such Person or any of its properties, except, in the cases of clauses (ii) and (iii), as would not, individually or in the aggregate, be reasonably expected to result in a Material Adverse Effect on the Wachovia Contributed Subsidiaries.

(e) Governmental and Third Party Approvals. No Governmental Approval or Third Party Approval is required in connection with the execution and delivery by Wachovia and its Subsidiaries of this Agreement and the other Transaction Documents or the performance of their respective obligations hereunder and thereunder or the consummation by Wachovia and its Subsidiaries of the transactions contemplated hereby and thereby, except for (i) the Governmental Approvals and Third Party Approvals identified on Schedule 4.1(e) and (ii) any Governmental Approval or Third Party Approval the failure of which to be obtained would not, individually or in the aggregate,

be reasonably expected to result in a Material Adverse Effect on the Wachovia Contributed Subsidiaries.

(f) Financial Statements; Undisclosed Liabilities; No Adverse Change.

(i) The Financial Statements of the Wachovia Contributed Business present fairly, in all material respects, the financial position and results of operations of the Wachovia Contributed Business, in accordance with GAAP applied on a consistent basis, as of the dates or for the periods presented, except as otherwise specified in Schedule 2.5(a)(i). The Financial Statements of the Wachovia Contributed Business have been derived from the accounting books and records of Wachovia and its Subsidiaries.

(ii) The balance sheet as of December 31, 2002 included in the Financial Statements of the Wachovia Contributed Business does not include any assets or liabilities not constituting a part of the Wachovia Contributed Business. The statements of income and statement of stockholders' or members' equity included in the Financial Statements of the Wachovia Contributed Business do not reflect the operations of any Person or business not constituting a part of the Wachovia Contributed Business.

(iii) Except as set forth in Schedule 4.1(f) and Wachovia Excluded Liabilities, the Wachovia Contributed Subsidiaries have no liabilities or obligations, whether known, absolute, accrued, contingent or otherwise and whether due or to become due, except for liabilities or obligations (x) reflected on, accrued or reserved against in the balance sheet contained in the Financial Statements of the Wachovia Contributed Business (in each case, to the extent so reflected, accrued or reserved), or (y) incurred after the date of such balance sheet in the ordinary course of business consistent with past practice to the extent permitted by this Agreement.

(iv) During the period from December 31, 2002 to the date hereof, there has occurred no Material Adverse Effect on the Wachovia Contributed Subsidiaries, and no event or occurrence, which would reasonably be expected to result in a Material Adverse Effect on the Wachovia Contributed Subsidiaries.

(g) Capitalization. As of the date hereof, all outstanding shares of capital stock of the Wachovia Contributed Subsidiaries (other than Wachovia Contributed Subsidiaries to be formed after the date hereof) are duly authorized, validly issued, fully paid and nonassessable, are subject to no preemptive or similar rights, and were not issued in violation of any preemptive or similar rights. As of the Closing, all outstanding equity interests of the Wachovia Contributed Subsidiaries will be duly authorized and validly issued limited liability company interests or comparable equity interests of the Wachovia Contributed Subsidiaries, will be fully paid and nonassessable, will not have been issued in violation of any preemptive or similar rights and, except as contemplated by the Transaction Documents, will be subject to no preemptive or similar rights. Upon contribution by Wachovia (or any of its Affiliates) to the Company, the Company will

acquire 100% of the limited liability company interests or comparable equity interests of the Wachovia Contributed Subsidiaries free and clear of any Liens, except for Permitted Liens and Liens created pursuant to the Transaction Documents. Except as contemplated by this Agreement (including the Wachovia Reorganization) or the other Transaction Documents, (A) no

capital stock, limited liability company interests or other equity securities (including but not limited to any options, warrants or rights or other security convertible into or exercisable or exchangeable for any capital stock, limited liability company interest or other equity security) of any Wachovia Contributed Subsidiary is or may become required to be issued (other than to a Company Entity) by reason of any security, contract or other obligation, (B) there are no contracts, commitments or other obligations by which any Wachovia Contributed Subsidiary is or may be bound to sell or otherwise transfer or repurchase, redeem or otherwise acquire any capital stock, limited liability company interests or other equity securities of such Wachovia Contributed Subsidiary (other than to or from a Company Entity), and (C) there are no contracts, commitments or other obligations relating to the right to vote or dispose of any capital stock, limited liability company interest or other equity security of any Wachovia Contributed Subsidiary.

(h) Assets; Title; Real Property.

(i) The assets (real, personal, mixed, tangible or intangible) constituting the Wachovia Contributed Assets, taking into account the benefits to be provided under the other Transaction Documents, constitute all of the assets used in, necessary for the conduct of, or otherwise material to, the Wachovia Contributed Business as presently conducted. Immediately after the Closing, taking into account the benefits to be provided under the other Transaction Documents, the Wachovia Contributed Subsidiaries will have good and marketable title to, or have good title pursuant to a valid leasehold interest in or have a valid right to use or occupy, all of the assets (real, personal, mixed, tangible or intangible) used in, necessary for the conduct of, or otherwise material to, the Wachovia Contributed Business as presently conducted, including the assets shown on the Financial Statements of the Wachovia Contributed Business and all of the Contributed Real Property of Wachovia, free and clear of any Liens, except (A) for Permitted Liens, (B) as set forth in Schedule 4.1(h) or (C) as would not reasonably be expected to result in a Material Adverse Effect on the Wachovia Contributed Subsidiaries. All of such assets are adequate and suitable in all material respects for the purposes for which they are presently being used. At the Closing, all of such tangible assets will be in sufficiently good operating condition and repair to permit their use in the operations of the Wachovia Contributed Subsidiaries as such operations are presently conducted, subject to normal wear and tear.

(ii) At the Closing, the Initial Wachovia Member will transfer to the Company good title to the Wachovia Contributed Membership Interests, free and clear of any Liens except Permitted Liens and Liens created pursuant to this Agreement and the other Transaction Documents.

(iii) At the Closing, there will be no leases, subleases, licenses, concessions or any other contracts or agreements granting to any Person other than the Company Entities any right to the possession, use, occupancy, or enjoyment of any Contributed Real Property of Wachovia or any portion thereof, except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Wachovia Contributed Subsidiaries. With respect to the Contributed Real Property of Wachovia, (A) the current operation and use of such Contributed Real Property does not violate any Law now in effect, including but not limited to planning, zoning, health, safety and fire Laws and regulations, and the use being made of such Contributed Real Property is in conformity with the certificate of occupancy issued therefor, and (B) no default or breach exists under any of the covenants, conditions, restrictions, rights-of-way or easements, if any, affecting all or any portion of such Contributed Real Property, which are to be performed or complied with by any Wachovia Contributed Subsidiaries, except in the case of (A) or (B) as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Wachovia Contributed Subsidiaries.

(i) Contracts. Set forth in Schedule 4.1(i) is a true and complete list of all of the Material Contracts of Wachovia in effect on the date of this Agreement (the "Wachovia Contracts"). Each Wachovia Contract is in full force and effect and a valid and binding obligation of the applicable Wachovia Contributed Subsidiary party thereto and, to the Knowledge of Wachovia, the other parties thereto, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar Laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law), and an implied covenant of good faith and fair dealing. Neither the Wachovia Contributed Subsidiary party thereto nor, to the Knowledge of Wachovia, any other party thereto is in default under, or in breach or

violation of, any Wachovia Contract, and no event has occurred (to the Knowledge of Wachovia, in the case of any other party thereto) that would, with notice or lapse of time or both, constitute such a default, breach or violation, except in each such case to the extent such default, breach or violation would not, individually or in the aggregate, be reasonably expected to have a Material Adverse Effect on the Wachovia Contributed Subsidiaries.

(j) No Litigation.

(i) Schedule 4.1(j)(i) sets forth a list of each individual Claim pending or, to the Knowledge of Wachovia, threatened against or affecting any Wachovia Contributed Subsidiary (whether or not related to the Wachovia Contributed Business) or any Wachovia Contributed Asset that would in any such case be reasonably expected to result in monetary damages in excess of $250,000 or the imposition of injunctive or other non-monetary relief that would reasonably be expected to materially interfere with the operations of the Wachovia Contributed Subsidiaries or with the Wachovia Contributed Business after the Closing Date (without regard to whether the defense thereof or liability in respect thereof is covered by polices of insurance or any indemnity, contribution, cost sharing or

similar agreement or arrangement by or with any other Person). Except as set forth on Schedule 4.1(j)(i), there are no Claims pending or, to the Knowledge of Wachovia, threatened against or affecting any Wachovia Contributed Subsidiary (whether or not related to the Wachovia Contributed Business), Wachovia Contributed Assets or Wachovia Contributed Liabilities that would, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Wachovia Contributed Subsidiaries.

(ii) Schedule 4.1(j)(ii) sets forth a list of each individual Order that would be reasonably expected to result in monetary damages in excess of $250,000 or the imposition of injunctive or other non-monetary relief that would reasonably be expected to materially interfere with the operations of the Wachovia Contributed Subsidiaries or with the Wachovia Contributed Business after the Closing Date (without regard to whether the defense thereof or liability in respect thereof is covered by policies of insurance or any indemnity, contribution, cost sharing or similar agreement or arrangement by or with any other Person). Except as set forth in such Schedule, there are no outstanding Orders applicable to any Wachovia Contributed Subsidiary (whether or not related to the Wachovia Contributed Business) or any other Subsidiary of Wachovia with respect to the Wachovia Contributed Business that would reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect on the Wachovia Contributed Subsidiaries. Wachovia has supplied or made available to Prudential copies of all Orders applicable to any Wachovia Contributed Subsidiary (whether or not related to the Wachovia Contributed Business) or other Subsidiary of Wachovia with respect to the Wachovia Contributed Business that are material to the Wachovia Contributed Subsidiaries or the Wachovia Contributed Business. To the Knowledge of Wachovia, no Governmental Authority has advised Wachovia, any Wachovia Contributed Subsidiary or any Subsidiary of Wachovia holding Wachovia Contributed Assets that it is contemplating issuing any Order of a type referred to above in this clause (ii).

(k) Compliance with Laws; Permits.

(i) Except as set forth on Schedule 4.1(k)(i), each Wachovia Contributed Subsidiary is conducting and has conducted its business in compliance with all Laws applicable to it except for any such failures to be in such compliance that would not, individually or in the aggregate, be reasonably expected to have a Material Adverse Effect on the Wachovia Contributed Subsidiaries.

(ii) Except as set forth on Schedule 4.1(k)(ii), each Wachovia Contributed Subsidiary has obtained and holds (or in the case of Wachovia Contributed Subsidiaries formed after the date hereof, will by Closing obtain and hold) all Permits necessary for the conduct of the operations of the Wachovia Contributed Subsidiaries or for the Wachovia Contributed Business, in each case except for any Permits the failure of which to obtain would not, individually or in

the aggregate, be reasonably expected to result in a Material Adverse Effect on the Wachovia Contributed Subsidiaries. Except as set forth in Schedule 4.1(k)(ii), there is no Claim pending or, to the Knowledge

of Wachovia, threatened by any Governmental Authority that would result in the nonrenewal, revocation, cancellation or suspension, or any adverse modification, of any such Permits, and the execution and delivery of this Agreement and the other Transaction Documents, and the consummation of the transactions contemplated hereby and thereby will not result in any such nonrenewal, revocation, cancellation, suspension or modification, in each case except as would not, individually or in the aggregate, be reasonably expected to result in a Material Adverse Effect on the Wachovia Contributed Subsidiaries. No Wachovia Contributed Subsidiary is in violation of any Permits applicable to it, except for any such violations that would not, individually or in the aggregate, be reasonably expected to have a Material Adverse Effect on the Wachovia Contributed Subsidiaries.

(iii) Each Wachovia Contributed Subsidiary has timely filed all registrations, declarations, reports, notices, forms and other filings required to be filed with the SEC, NASD, NYSE or any other Governmental Authority, and all amendments or supplements to any of the foregoing (the "Wachovia Contributed Subsidiary Filings"), except where any failure to file would not, individually or in the aggregate, be reasonably expected to result in a Material Adverse Effect on the Wachovia Contributed Subsidiaries. The Wachovia Contributed Subsidiary Filings were prepared in all material respects, where applicable, in accordance with applicable Law, and all fees and assessments due and payable in connection therewith have been paid in all material respects.

(iv) Each Wachovia Contributed Subsidiary and each of its respective employees is (or, in the case of Wachovia Contributed Subsidiaries not yet formed, will at the Closing be) duly registered, licensed or qualified as a broker-dealer and/or investment adviser in each jurisdiction where the conduct of its business requires such registration, licensing or qualification, and is (or, in the case of Wachovia Contributed Subsidiaries not yet formed, will at the Closing be) in compliance with all Laws requiring any such registration, licensing or qualification and is (or, in the case of Wachovia Contributed Subsidiaries not yet formed, will at the Closing be) subject to no material liability or disability by reason of the failure to be so registered, licensed or qualified.

(v) Wachovia has delivered or made available to Prudential a true and complete copy of currently effective Forms BD and ADV as filed with the SEC by each applicable Wachovia Contributed Subsidiary, all state and other federal registration forms, all reports and all material correspondence filed by each applicable Wachovia Contributed Subsidiary with any Governmental Authority under the Exchange Act, the Investment Company Act, the Advisers Act and under similar state statutes within the last three years. Wachovia shall deliver to Prudential such forms and reports as are filed by each Wachovia Contributed Subsidiary from and after the date hereof until the Closing. The information contained in such forms and reports was (or will be, in the case of any forms and

reports filed after the date hereof) complete and accurate in all material respects as of the time of filing thereof.

(vi) Except as disclosed on Forms ADV or BD filed prior to the date of this Agreement, no Wachovia Contributed Subsidiary nor any of its directors, officers, employees, "associated persons" (as defined in the Exchange Act) or "affiliated persons" (as defined in the Investment Company Act) has been the subject of any disciplinary proceedings or Orders of any Governmental Authority arising under applicable Laws which would be required to be disclosed on Forms ADV or BD. No such disciplinary proceeding or Order is pending or, to the Knowledge of Wachovia, threatened. Except as disclosed on such Forms ADV or BD filed prior to the date of this Agreement, no Wachovia Contributed Subsidiary nor any of its directors, officers, employees, associated persons or affiliated persons, has been permanently enjoined by the Order of any Governmental Authority from engaging or continuing any conduct or practice in connection with any activity or in connection with the purchase or sale of any security. Except as disclosed on such Forms ADV or BD filed prior to the date of this Agreement, no Wachovia Contributed Subsidiary nor any of its directors, officers, employees, associated persons or affiliated persons is or has been ineligible to serve as an investment adviser under the Advisers Act or as a broker-dealer or an associated person of a broker-dealer under Section 15(b) of the Exchange Act (including being subject to any "statutory disqualification" as defined in Section 3(a)(39) of the Exchange Act), or ineligible to serve in, or subject to any disqualification which would be the basis for any limitation on serving in, any of the capacities specified in Section 9(a) or 9(b) of the Investment Company Act.

(vii) Each Wachovia Contributed Subsidiary has at all times since December 31, 1999 or its date of formation, whichever is later, rendered investment advisory services to investment advisory clients with whom such entity is or was a party to an investment advisory agreement or similar arrangement in material compliance with all applicable requirements as to portfolio composition and portfolio management including, but not limited to, the terms of such investment advisory agreements, written instructions from such investment advisory clients, prospectuses or other offering materials, board of directors or trustee directives and applicable Law. No Wachovia Contributed Subsidiary is, or is required to register as, an "investment company" within the meaning of the Investment Company Act.

(viii) Schedule 4.1(k)(viii) sets forth a complete list of all securities exchanges, commodities exchanges, boards of trade, clearing organizations, trade associations and similar organizations in which the Wachovia Contributed Subsidiaries and any other Subsidiaries of Wachovia with respect to the Wachovia Contributed Business hold membership or have been granted trading privileges.

(ix) Schedule 4.1(k)(ix) sets forth with respect to each Wachovia Contributed Subsidiary a complete list of all (i) broker-dealer licenses or

registrations and (ii) all licenses and registrations as an investment adviser under the Advisers Act or any similar state Laws. Except as set forth on Schedule 4.1(k)(ix), no Wachovia Contributed Subsidiary is, or is required to be, registered as a futures commission merchant, commodities trading adviser, commodity pool operator or introducing broker under the Commodities Futures Trading Act or any similar state Laws.

(x) Assuming the accuracy of the representation of Prudential set forth in Section 4.2(k)(x), (A) Wachovia has all necessary regulatory power and authority under the Bank Holding Company Act of 1956, as amended, to own and hold its Membership Interests in the Company, and (B) no Wachovia Entity is subject to any Law or Order preventing or making unlawful its conduct of the Contributed Businesses.

(l) Tax. Except as set forth on Schedule 4.1(l) or as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Wachovia Contributed Subsidiaries, (i) the Wachovia Contributed Subsidiaries and the other Subsidiaries of Wachovia with respect to the Wachovia Contributed Business have timely filed (or Wachovia has timely filed on their behalf) with the appropriate taxing authorities all Tax Returns required to be filed by or with respect to the Wachovia Contributed Business, (ii) the Wachovia Contributed Subsidiaries and the other Subsidiaries of Wachovia with respect to the Wachovia Contributed Business have paid in full (or Wachovia has paid in full on their behalf) all Taxes due by or in respect of the Wachovia Contributed Business for all periods, (iii) each Wachovia Contributed Subsidiary and each other Subsidiary of Wachovia with respect to the Wachovia Contributed Business has duly and timely withheld all Taxes required to be withheld in connection with its business or assets, and such withheld Taxes have been either duly and timely paid to the proper Governmental Authorities or properly set aside in accounts for such purpose, (iv) there are no material outstanding adjustments for Tax purposes applicable to any Wachovia Contributed Subsidiary or other Subsidiary of Wachovia with respect to the Wachovia Contributed Business and required as a result of changes in methods of accounting effected on or before the Closing Date, which adjustments will remain in force or by which any Wachovia Contributed Subsidiary or other Company Entity will be bound after the Closing Date, (v) no material elections for Tax purposes have been made by any Wachovia Contributed Subsidiary or other Subsidiary of Wachovia with respect to the Wachovia Contributed Business that will remain in force or by which any Wachovia Contributed Subsidiary or other Company Entity will be bound after the Closing Date, (vi) no Wachovia Contributed Subsidiary is a party to or bound by or has any rights or obligations under any Tax allocation, sharing, indemnity or similar agreement or arrangement that will remain in effect after the Closing Date, and (vii) no Wachovia Contributed Subsidiary is or has been a member of any group of companies filing a consolidated, combined or unitary Tax Return for any Tax period for which the statute of limitations for the assessment or collection of any Tax remains open, other than a group of which Wachovia or one of its Subsidiaries has at all times been the common parent.

(m) Individual Benefit Plans and Related Matters; ERISA.

(i) Individual Benefit Plans.

(A) Schedule 4.1(m)(i) sets forth a complete and correct list of each Wachovia Contributed Business Plan. With respect to each such Wachovia Contributed Business Plan, Wachovia has provided or made available to Prudential complete and correct copies of: (x) such Wachovia Contributed Business Plan, if written, or a description of such Wachovia Contributed Business Plan if not written, (y) to the extent applicable to such Wachovia Contributed Business Plan, all trust agreements, insurance contracts or other funding arrangements, the two most recent actuarial and trust reports, the two most recent Forms 5500 required to have been filed with the IRS and all schedules thereto, the most recent IRS determination letter, all current summary plan descriptions, all material written communications received from or sent to the IRS, the Pension Benefit Guaranty Corporation or the Department of Labor, the most recent actuarial report regarding any post-employment life or medical benefits provided under any such Wachovia Contributed Business Plan, the most recent statements or other communications regarding Wachovia withdrawal or other multiemployer plan liabilities, if any, and (z) all amendments and modifications with a prospective effect to any Wachovia Contributed Business Plan and related trust agreements and/or insurance contracts or other funding arrangements. In addition, Wachovia has indicated on Schedule 4.1(m)(i) which Wachovia Contributed Business Plans are deferred compensation, supplemental defined benefit retirement, stock and other equity (or equity-based) compensation, short-term bonus, and retiree welfare benefit plans, employment contracts, and non-compete, non-solicitation, and nondisclosure agreements.

(B) None of Wachovia or any member of the Wachovia Contributed Business has communicated in writing to any Wachovia Contributed Business Individual any intention or commitment to modify any Wachovia Contributed Business Plan or to establish or implement any other employee, retiree or independent contractor benefit or compensation plan or arrangement following the date of this Agreement.

(ii) Qualification. Each Wachovia Contributed Business Plan intended to be qualified under Section 401(a) of the Code is so qualified and has received a favorable determination letter from the IRS as to its qualification under the Code and to the effect that any trust forming a part thereof is exempt from taxation under Section 501(a) of the Code, and nothing has occurred since the date of such determination letter that could reasonably be expected to adversely affect such qualification or tax-exempt status.

(iii) Compliance; Liability.

(A) Neither Wachovia nor any Wachovia Related Person has been involved in any transaction that would reasonably be expected to cause, following the Closing, any Company Entity to be subject to liability under Section 4069 or 4212 of ERISA. Neither Wachovia nor any Wachovia Related Person has incurred (either directly or indirectly, including as a result of an indemnification obligation) any material liability under or pursuant to Title IV of ERISA or the penalty, excise Tax or joint and several liability provisions of the Code relating to employee benefit plans and, to the Knowledge of Wachovia, no event, transaction or condition has occurred or exists that would, individually or in the aggregate, reasonably be expected to result in any such liability to, following the Closing, Wachovia or any of its Affiliates or any Company Entity. All contributions and premiums required to have been paid or accrued through the Closing Date by Wachovia and each Wachovia Related Person to any Wachovia Contributed Business Plan under the terms of any such plan or its related trust, insurance contract or other funding arrangement (whether as a result of the transactions contemplated by the Transaction Documents or otherwise) or pursuant to any applicable Law or collective bargaining agreement (including ERISA and the Code) have been paid within the earliest time prescribed by any such plan, agreement or applicable Law or have been properly accrued and none of the Company Entities shall be liable for any such contributions or premiums unless such have been so accrued on the Final Closing Balance Sheet of the Wachovia Contributed Business.

(B) Each of the Wachovia Contributed Business Plans has been operated and administered in all material respects in compliance with its terms, all applicable Laws and all applicable collective bargaining agreements. Except as set forth on Schedule 4.1(m)(iii)(B), there are no material pending or, to the Knowledge of Wachovia, threatened, Claims by or on behalf of any of the Wachovia Contributed Business Plans, by any Wachovia Contributed Business Individual or otherwise involving any such Wachovia Contributed Business Plan or the assets of any Wachovia Contributed Business Plan (other than routine claims for benefits, all of which have been fully reserved for on the balance sheet included in the Financial Statements of the Wachovia Contributed Business).

(C) No Wachovia Contributed Business Plan is or will be, as a result of the Closing, a multiemployer plan (as defined in Section 4001(a)(3) of ERISA) or a "multiple employer plan" within the meaning of Section 4063 or 4064 of ERISA.

(D) Each Wachovia Contributed Business Plan that is subject to the minimum funding standards of ERISA or the Code satisfies such standards under Sections 412 and 302 of the Code and ERISA, respectively, and no

such Wachovia Contributed Business Plan has incurred an "accumulated funding deficiency" within the meaning of such sections, whether or not waived. No "prohibited transaction" (within the meaning of Section 406 of ERISA and Section 4975 of the Code) has occurred or would reasonably be expected to occur with respect to any Wachovia Contributed Business Plan that would reasonably be expected to result, individually or in the aggregate, in a material liability to any Company Entity.

(E) Except as set forth on Schedule 4.1(m)(iii)(E), or otherwise provided in Section 8.4 of this Agreement, no Wachovia Contributed Business Individual is or will become, on and after the Closing, entitled to receive post-employment benefits of any kind by reason of employment with any member of the Wachovia Contributed Business under any Wachovia Contributed Business Plan for which any of the Company Entities will bear any expense, including, without limitation, death or medical benefits (whether or not insured), other than (I) coverage mandated by Section 4980B of the Code or (II) retirement benefits payable under any Wachovia Contributed Business Plan qualified under Section 401(a) of the Code. In addition, except as set forth on Schedule 4.1(m)(iii)(E), all agreements with (x) any independent contractor that provides services to any Wachovia Contributed Subsidiaries and (y) any Third Party service provider (including, without limitation, any vendor or administrator) that provides services with respect to the Wachovia Contributed Business Plans or the Wachovia Transferees, may in any of the cases described in clauses (x) and (y) above, be terminated in accordance with the terms of any such agreement without liability to Wachovia or its Affiliates or any Company Entity at any time, other than fees payable in the normal course for services rendered prior to such termination.

(F) The announcement or consummation of the transactions contemplated by this Agreement and the other Transaction Documents, either alone or in combination with a subsequent event, will not result in the payment or provision of, or an increase in the amount of, compensation or benefits or the acceleration of the vesting or timing of payment of any compensation or benefits payable to or in respect of any Wachovia Contributed Business Individual or the funding of any grantor trust relating to such individual.

(G) All Wachovia Contributed Business Plans that are welfare benefit plans or nonqualified deferred compensation plans may be terminated without liability to Wachovia or its Affiliates or any Company Entity at any time (or with such applicable notice to participants as any such plans may require).

(H) None of Prudential, its Affiliates, any Company Entity or any Benefit Plan (other than the Wachovia Pension

Plan) is entitled, or has any rights or Claims, to any assets of the Wachovia Pension Plan.

(iv) Foreign Plans. No Wachovia Contributed Business Plan is maintained outside the jurisdiction of the United States, or covers any Wachovia Contributed Business Individual residing or working outside the United States.

(n) Labor. No Wachovia Contributed Subsidiary is a party to or bound by any collective bargaining agreement, contract or other understanding with a labor union or labor organization with respect to the Wachovia Contributed Business Individuals, and to the Knowledge of Wachovia, there is no activity involving the Wachovia Contributed Business Individuals seeking to certify a collective bargaining unit or engaging in any similar organizational activity. Wachovia and its Subsidiaries are in compliance with its obligations pursuant to the Worker Adjustment and Retraining Notification Act of 1988, as amended ("WARN"), and all other notification and bargaining obligations arising under any collective bargaining agreement, statute or otherwise. In no event shall Prudential or its Affiliates or any of the Company Entities have or bear any liability or responsibility with respect to WARN arising on or prior to the Closing Date as a result of the transactions contemplated by this Agreement as it applies to any Wachovia Contributed Subsidiary or Wachovia Contributed Business Individual, unless such liability arises as a result of any action (or any failure to act) by Prudential or any Company Entity after the Closing Date. Except to the extent a failure to do so would not, individually or in the aggregate, be reasonably expected to have a Material Adverse Effect on the Wachovia Contributed Subsidiaries, the Wachovia Contributed Subsidiaries have complied with all applicable Laws pertaining to the employment or termination of employment of the Wachovia Contributed Business Individuals, including without limitation, all such Laws relating to labor relations, equal employment opportunities, fair employment practices, prohibited discrimination or distinction and other similar employment activities.

(o) Intellectual Property.

(i) Wachovia has made available to Prudential complete and correct lists as of the date hereof of all material patents, registered trademarks, registered copyrights, domain names and applications with respect to any of the foregoing with respect to all Wachovia Business IP.

(ii) To the Knowledge of Wachovia: (A) each Wachovia Contributed Subsidiary has the right to the use all Intellectual Property used by it in or for the benefit of the Wachovia Contributed Business, free and clear of all Liens other than Permitted Liens, Liens pursuant to licenses that are not included in the Wachovia Contributed Assets and Liens created pursuant to this Agreement and the other Transaction Documents, (B) Wachovia has taken commercially reasonable steps to protect and maintain the Wachovia Business IP, and the Wachovia Business IP is valid, enforceable and currently subsisting, and (C) the Intellectual Property used by each Wachovia Contributed Subsidiary and the use

thereof in the manner in which such Intellectual Property is currently used in the Wachovia Contributed Business does not Infringe the rights of others, the Wachovia Business IP is not being Infringed by others, and, except as identified on Schedule 4.1(o), Wachovia and the Wachovia Contributed Subsidiaries have not received any written claims alleging Infringement of any Third Party's Intellectual Property by a Wachovia Contributed Subsidiary within the last two years (without regard to whether any such claim has been settled), except, in the case of (A), (B) or (C), as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Wachovia Contributed Subsidiaries.

(iii) Wachovia has established and maintains a commercially reasonable security program, including technology, practices, procedures, and processes meeting or exceeding industry standards that are designed to protect the integrity of transactions executed through its IT Systems, including using encryption and/or other security protocols and techniques when appropriate.

(p) Environmental. Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Wachovia Contributed Subsidiaries:

(i) Each Wachovia Contributed Subsidiary has complied and is in compliance with all applicable Environmental Laws pertaining to the Wachovia Contributed Assets (including its Contributed Real Property) held by it and the use and ownership thereof, and to the

operation of the Wachovia Contributed Business;

(ii) No violation by any Wachovia Contributed Subsidiary is being alleged of any applicable Environmental Law relating to any of the Wachovia Contributed Assets (including its Contributed Real Property) held by it or the use or ownership thereof, or to the operation of the Wachovia Contributed Business; and

(iii) No Wachovia Contributed Subsidiary or any other Person (including any tenant or subtenant) has caused or taken any action that will result in, and no Wachovia Contributed Subsidiary is subject to, any liability or obligation relating to (x) the environmental conditions on, under, or about the Contributed Real Property of Wachovia or other properties or assets owned, leased, operated or used by any Wachovia Contributed Subsidiary at the present time or in the past, including without limitation, the air, soil and groundwater conditions at such properties or (y) the past or present use, management, handling, transport, treatment, generation, storage, disposal or Release of any Hazardous Materials.

(q) Insurance. The Wachovia Contributed Subsidiaries maintain insurance policies (or are covered by insurance policies maintained by or on behalf of Wachovia or its other Subsidiaries) for the Wachovia Contributed Business that are customary in scope

and amount of coverage. All of such insurance policies are in full force and effect, and no Wachovia Contributed Subsidiary (or Wachovia or any other Subsidiary, if applicable) is in default in any material respect with respect to its obligations under any of such insurance policies. All premiums or payments payable under all such insurance policies for periods prior to and ending on the date hereof have been duly paid or accrued therefor on the Financial Statements of the Wachovia Contributed Business.

(r) Affiliate Transactions.

(i) Set forth on Schedule 4.1(r) is a complete and correct list of all contracts, arrangements or other transactions (other than the Transaction Documents), whether or not entered into in the ordinary course of business, to or by which any Wachovia Contributed Subsidiary, on the one hand, and Wachovia Entity, on the other hand, are or have been a party or otherwise bound or affected, which: (A) will be in effect after the Wachovia Reorganization, and (B) either (x) involve liabilities and obligations that are material to any Wachovia Contributed Subsidiary or (y) provide any Wachovia Contributed Subsidiary any material benefits.

(ii) At the Closing, none of the Wachovia Contributed Subsidiaries will be a party or subject to any contract with any of the Wachovia Entities or their respective Affiliates except for any applicable Transaction Documents (or as contemplated thereby), as disclosed pursuant to Section 4.1(r)(i), or as otherwise disclosed in the Financial Statements of the Wachovia Contributed Business.

(s) Accounting Controls. The Wachovia Contributed Subsidiaries have devised and maintained systems of internal accounting controls with respect to the Wachovia Contributed Business sufficient to provide reasonable assurances that (i) all transactions are executed in accordance with management's general or specific authorization, (ii) all transactions are recorded as necessary to permit the preparation of financial statements in conformity with GAAP and to maintain proper accountability for items, (iii) access to their property and assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for items is compared with the actual levels at reasonable intervals and appropriate action is taken with respect to any differences, except with respect to (i) through (iv) for such failures as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Wachovia Contributed Subsidiaries. Each Wachovia Contributed Subsidiary that is registered as a broker-dealer has adopted record keeping systems that comply in all material respects with the requirements of applicable Law (including, in the case of U.S. broker-dealer entities, Section 17 of the Exchange Act and the rules and regulations thereunder) and the rules of all self-regulatory organizations having jurisdiction over such Wachovia Contributed Subsidiary, and maintains its records in substantial compliance therewith.

(t) Corrupt Practices.

(i) No Wachovia Contributed Subsidiary, and to the Knowledge of Wachovia, none of the senior managers of any Wachovia

Contributed Subsidiary, has been convicted of any criminal offense or found guilty of any civil offense in either case involving fraud, misrepresentation, dishonesty, breach of fiduciary duty, substantive violation of banking or corporate Tax laws, embezzlement or other fraudulent conversion or misappropriation of property.

(ii) No Wachovia Contributed Subsidiary has made any contribution or expenditure, whether in the form of money, products, services or facilities, in connection with any election for political office or to any public official except to the extent permitted by applicable Law. No Wachovia Contributed Subsidiary has offered or provided any unlawful remuneration, entertainment or gifts to any Person, including any official of a Governmental Authority, except for small payments to expedite or secure the performance of routine governmental action such as processing governmental papers (e.g., visas and shipping documents), providing mail or phone services, scheduling inspections and obtaining Permits.

(iii) Since December 31, 1999, each Wachovia Contributed Subsidiary has been in compliance in all material respects with all requirements applicable to it regarding anti-money laundering and anti-terrorist rules and regulations, including without limitation the applicable provisions of the USA PATRIOT Act and the rules and regulations thereunder.

(u) No Broker. Except for Merrill Lynch, Pierce, Fenner & Smith Incorporated and Berkshire Capital Corporation, Wachovia is not, and no Wachovia Contributed Subsidiary at the Closing will be, committed to any liability for any brokers' or finders' fees or any similar fees, including but not limited to any bonus payable to any director, officer, employee, agent or representative of or consultant to any Wachovia Contributed Subsidiary, in connection with the transactions contemplated by this Agreement.

Section 4.2 Representations and Warranties of Prudential. Prudential, on behalf of itself and the other Prudential Transferors, represents and warrants to Wachovia, as of the date hereof, that except as set forth herein by reference to a Schedule identified to a subsection of this Section 4.2 and except to the extent that any of the representations and warranties set forth below relate to or apply to the Prudential Excluded Assets, the Prudential Excluded Liabilities, or the Prudential Excluded Businesses:

(a) Organization, Standing and Power of Prudential and Subsidiaries. Prudential is a corporation duly organized, validly existing and in good standing under the Laws of the State of New Jersey. Prudential has all requisite corporate power and authority to execute and deliver this Agreement and any other Transaction Document to which it will be a party, to perform its obligations hereunder and thereunder, and to consummate the transactions contemplated hereby and thereby. Each other Prudential Transferor is duly organized, validly existing and (except to the extent inapplicable to foreign Subsidiaries) in good standing under the Laws of its jurisdiction of organization and will at the Closing

have all requisite corporate or comparable power and authority to perform the obligations applicable to such Prudential Transferor hereunder and under the other Transaction Documents and to consummate the transactions contemplated hereby and thereby. Each Subsidiary of Prudential to become a party to a Transaction Document will have at the Closing all requisite corporate or comparable power and authority to execute and deliver each Transaction Document to be executed and delivered by it, to perform its obligations hereunder and thereunder, and to consummate the transactions contemplated hereby and thereby. Each Prudential Transferor has all requisite corporate or comparable power and authority to own and operate the Prudential Contributed Assets and the Prudential Contributed Liabilities and to operate the Prudential Contributed Business as currently conducted and is duly qualified to do business and in good standing as a foreign entity authorized to transact business in each jurisdiction where the ownership of such assets and liabilities or the operation of such business requires such qualification or license, except where failure to obtain such license would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Prudential Contributed Business.

(b) Prudential Contributed Subsidiaries. Except as set forth on Schedule 4.2(b), each Prudential Contributed Subsidiary is (or in the case of Prudential Contributed Subsidiaries formed after the date hereof, will be by Closing) an entity duly organized, validly existing and in good standing under the Laws of its jurisdiction of organization, and each Prudential Contributed Subsidiary will be at the Closing an entity which is a disregarded entity for U.S. federal income tax purposes) (except as set forth in Schedule 4.2(b)) and duly organized, validly existing and (except to the extent not applicable to foreign Subsidiaries) in good standing

under the Laws of its jurisdiction of organization. Each Prudential Contributed Subsidiary has (or in the case of Prudential Contributed Subsidiaries formed after the date hereof, will have by Closing) all requisite corporate or comparable power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted or as proposed to be conducted from and after the Closing. Each Prudential Contributed Subsidiary will have at the Closing all requisite limited liability company or comparable power and authority to own, lease and operate the Prudential Contributed Assets and to carry on the Prudential Contributed Business. Each Prudential Contributed Subsidiary is (or in the case of Prudential Contributed Subsidiaries formed after the date hereof, will be) duly qualified and (except to the extent not applicable to foreign Subsidiaries) in good standing as a foreign entity authorized to transact business in each jurisdiction where the conduct of its business or the ownership of its properties requires such qualification other than in jurisdictions where the failure to be so qualified, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect on the Prudential Contributed Business. Prudential has made available to Wachovia complete and correct copies of (i) the charter, bylaws or comparable organizational documents of each Prudential Contributed Subsidiary as in effect on the date hereof and (ii) the minute books or comparable records of each Prudential Contributed Subsidiary, which at the date such books and records were made available reflected in all material respects all corporate or comparable actions taken by the stockholders or comparable equity holders, and directors or comparable governing body (and any committee thereof), of each Prudential Contributed Subsidiary.

(c) Authority and Validity. The execution and delivery of this Agreement and each other Transaction Document to be executed and delivered by Prudential and its Subsidiaries, the performance of their respective obligations hereunder and thereunder and the consummation of the transactions contemplated hereby and thereby have been, or in the case of Transaction Documents not yet executed and delivered on the date hereof, will be by the Closing, duly and validly authorized by all necessary corporate or comparable action on the part of such Person. This Agreement and each other Transaction Document to be executed and delivered by Prudential or any of its Subsidiaries have been, or in the case of Transaction Documents not yet executed on the date hereof will be by the Closing, duly executed and delivered and are (or will be by Closing) valid and binding obligations of Prudential or such Subsidiary, as applicable, that is a party thereto, enforceable against it in accordance with its terms, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar Laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law), and an implied covenant of good faith and fair dealing.

(d) No Conflicts. Subject to obtaining the Governmental Approvals and Third Party Approvals contemplated in Section 4.2(e), and except as set forth on Schedule 4.2(d), the execution and delivery of this Agreement and each other Transaction Document intended to be executed by Prudential and its Subsidiaries, and the performance of their respective obligations hereunder and thereunder and the consummation of the transactions contemplated hereby and thereby do not (i) conflict with or result in a breach of any provision of any of their respective articles of incorporation or by-laws or comparable organizational documents, or (ii) conflict with, result in a breach of any provision of, constitute a default (or an event which with notice or lapse of time or both would become a default) or give to any Third Party any right of termination, cancellation, amendment or acceleration under, or result in the creation of a Lien on any of their respective properties under, any of the terms, conditions or provisions of any note, bond, debenture, mortgage, indenture, license, lease, contract, agreement or other instrument or obligation to which any of them is a party, or by which any of them or any of their respective properties may be bound or subject, or (iii) violate or conflict with any Law applicable to such Person or any of its properties, except, in the cases of clauses (ii) and (iii), as would not, individually or in the aggregate, be reasonably expected to result in a Material Adverse Effect on the Prudential Contributed Business.

(e) Governmental and Third Party Approvals. No Governmental Approval or Third Party Approval is required in connection with the execution and delivery by Prudential and its Subsidiaries of this Agreement and the other Transaction Documents or the performance of their respective obligations hereunder and thereunder or the consummation by Prudential and its Subsidiaries of the transactions contemplated hereby and thereby, except for (i) the Governmental Approvals and Third Party Approvals identified on Schedule 4.2(e) and (ii) any Governmental Approval or Third Party Approval the failure of which to be obtained would not, individually or in the aggregate, be reasonably expected to result in a Material Adverse Effect on the Prudential Contributed Business.

(f) Financial Statements; Undisclosed Liabilities; No Adverse Change.

(i) The Financial Statements of the Prudential Contributed Business present fairly, in all material respects, the financial position and results of operations of the Prudential Contributed Business, in accordance with GAAP applied on a consistent basis, as of the dates or for the periods presented, except as otherwise specified in Schedule 2.5(a)(ii). The Financial Statements of the Prudential Contributed Business have been derived from the accounting books and records of Prudential and its Subsidiaries.

(ii) The balance sheet as of December 31, 2002 included in the Financial Statements of the Prudential Contributed Business does not include any assets or liabilities not constituting a part of the Prudential Contributed Business. The statements of income and statement of stockholders' or members' equity included in the Financial Statements of the Prudential Contributed Business do not reflect the operations of any Person or business not constituting a part of the Prudential Contributed Business.

(iii) Except as set forth in Schedule 4.2(f) and Prudential Excluded Liabilities, the Prudential Contributed Business has no liabilities or obligations, whether known, absolute, accrued, contingent or otherwise and whether due or to become due, except for liabilities or obligations (x) reflected on, accrued or reserved against in the balance sheet contained in the Financial Statements of the Prudential Contributed Business (in each case, to the extent so reflected, accrued or reserved), or (y) incurred after the date of such balance sheet in the ordinary course of business consistent with past practice to the extent permitted by this Agreement.

(iv) During the period from December 31, 2002 to the date hereof, there has occurred no Material Adverse Effect on the Prudential Contributed Business, and no event or occurrence, which would reasonably be expected to result in a Material Adverse Effect on the Prudential Contributed Business.

(g) Capitalization. As of the date hereof, all outstanding shares of capital stock of the Prudential Contributed Subsidiaries (other than Prudential Contributed Subsidiaries to be formed after the date hereof) are duly authorized, validly issued, fully paid and nonassessable, are subject to no preemptive or similar rights, and were not issued in violation of any preemptive or similar rights. As of the Closing, all outstanding equity interests of the Prudential Contributed Subsidiaries will be duly authorized and validly issued limited liability company interests or comparable equity interests of the Prudential Contributed Subsidiaries, will be fully paid and nonassessable, will not have been issued in violation of any preemptive or similar rights and, except as contemplated by the Transaction Documents, will be subject to no preemptive or similar rights. Upon contribution by Prudential (or any of its Affiliates) to the Company, the Company will acquire 100% of the equity interests of the Prudential Contributed Subsidiaries free and clear of any Liens, except for Permitted Liens and Liens created pursuant to the Transaction Documents. Except as contemplated by this Agreement (including the

Prudential Pre-Closing Conversion) or the other Transaction Documents, (A) no capital stock, limited liability company interests or other equity securities (including but not limited to any options, warrants or rights or other security convertible into or exercisable or exchangeable for any capital stock, limited liability company interest or other equity security) of any Prudential Contributed Subsidiary is or may become required to be issued (other than to a Company Entity) by reason of any security, contract or other obligation, (B) there are no contracts, commitments or other obligations by which any Prudential Contributed Subsidiary is or may be bound to sell or otherwise transfer or repurchase, redeem or otherwise acquire any capital stock, limited liability company interests or other equity securities of such Prudential Contributed Subsidiary (other than to or from a Company Entity), and (C) there are no contracts, commitments or other obligations relating to the right to vote or dispose of any capital stock, limited liability company interest or other equity security of any Prudential Contributed Subsidiary.

(h) Assets; Title; Real Property.

(i) The assets (real, personal, mixed, tangible or intangible) constituting the Prudential Contributed Assets, taking into account the benefits to be provided under the other Transaction Documents, constitute all of the assets used in, necessary for the

conduct of, or otherwise material to, the Prudential Contributed Business as presently conducted. Immediately after the Closing, taking into account the benefits to be provided under the other Transaction Documents, the Company Entities will have good and marketable title to, or have good title pursuant to a valid leasehold interest in or have a valid right to use or occupy, all of the assets (real, personal, mixed, tangible or intangible) used in, necessary for the conduct of, or otherwise material to, the Prudential Contributed Business as presently conducted, including the assets shown on the Financial Statements of the Prudential Contributed Business and all of the Contributed Real Property of Prudential, free and clear of any Liens, except (A) for Permitted Liens, (B) as set forth in Schedule 4.2(h) or (C) as would not reasonably be expected to result in a Material Adverse Effect on the Prudential Contributed Business. All of such assets are adequate and suitable in all material respects for the purposes for which they are presently being used. At the Closing, all of such tangible assets will be in sufficiently good operating condition and repair to permit their use in the operations of the Prudential Contributed Business as such operations are presently conducted, subject to normal wear and tear.

(ii) At the Closing, the applicable Prudential Transferors will transfer to the Company good title to the Prudential Contributed Equity Interests, free and clear of any Liens except Permitted Liens and Liens created pursuant to this Agreement and the other Transaction Documents.

(iii) At the Closing, there will be no leases, subleases, licenses, concessions or any other contracts or agreements granting to any Person other than the Company Entities any right to the possession, use, occupancy, or enjoyment of any Contributed Real Property of Prudential or any portion thereof, except as would not, individually or in the aggregate, reasonably be expected to

have a Material Adverse Effect on the Prudential Contributed Subsidiaries. With respect to the Contributed Real Property of Prudential, (A) the current operation and use of such Contributed Real Property does not violate any Law now in effect, including but not limited to planning, zoning, health, safety and fire Laws and regulations, and the use being made of such Contributed Real Property is in conformity with the certificate of occupancy issued therefor, and (B) no default or breach exists under any of the covenants, conditions, restrictions, rights-of-way or easements, if any, affecting all or any portion of such Contributed Real Property, except in the case of (A) or (B) as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Prudential Contributed Business.

(i) Contracts. Set forth in Schedule 4.2(i) is true and complete list of all of the Material Contracts of Prudential in effect on the date of this Agreement (the "Prudential Contracts"). Each Prudential Contract is in full force and effect and a valid and binding obligation of the applicable Prudential Transferor party thereto and, to the Knowledge of Prudential, the other parties thereto, subject to the effects of bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium and other similar Laws relating to or affecting creditors' rights generally, general equitable principles (whether considered in a proceeding in equity or at law), and an implied covenant of good faith and fair dealing. Neither the Prudential Transferor party thereto nor, to the Knowledge of Prudential, any other party thereto is in default under, or in breach or violation of, any Prudential Contract, and no event has occurred (to the Knowledge of Prudential, in the case of any other party thereto) that would, with notice or lapse of time or both, constitute such a default, breach or violation, except in each such case to the extent such default, breach or violation would not, individually or in the aggregate, be reasonably expected to have a Material Adverse Effect on the Prudential Contributed Business.

(j) No Litigation.

(i) Schedule 4.2(j)(i) sets forth a list of each individual Claim pending or, to the Knowledge of Prudential, threatened against or affecting any Prudential Contributed Subsidiary (whether or not related to the Prudential Contributed Business) or any Prudential Contributed Asset that would in any such case be reasonably expected to result in monetary damages in excess of $250,000 or the imposition of injunctive or other non-monetary relief that would reasonably be expected to materially interfere with the operations of the Prudential Contributed Business after the Closing Date (without regard to whether the defense thereof or liability in respect thereof is covered by polices of insurance or any indemnity, contribution, cost sharing or similar agreement or arrangement by or with any other Person). Except as set forth on Schedule 4.2(j)(i), there are no

Claims pending or, to the Knowledge of Prudential, threatened against or affecting any Prudential Contributed Subsidiary (whether or not related to the Prudential Contributed Business) or Prudential Transferor with respect to the Prudential Contributed Business, the Prudential Contributed Assets or Prudential Contributed Liabilities that would, individually or in the aggregate, reasonably be

expected to have a Material Adverse Effect on the Prudential Contributed Business.

(ii) Schedule 4.2(j)(ii) sets forth a list of each individual Order that would be reasonably expected to result in monetary damages in excess of $250,000 or the imposition of injunctive or other non-monetary relief that would reasonably be expected to materially interfere with the Prudential Contributed Business after the Closing Date (without regard to whether the defense thereof or liability in respect thereof is covered by policies of insurance or any indemnity, contribution, cost sharing or similar agreement or arrangement by or with any other Person). Except as set forth on such Schedule, there are no outstanding Orders applicable to any Prudential Contributed Subsidiary (whether or not related to the Prudential Contributed Business) or any Prudential Transferor with respect to the Prudential Contributed Business which would reasonably be expected, individually or in the aggregate, to have a Material Adverse Effect on the Prudential Contributed Business. Prudential has supplied or made available to Wachovia copies of all Orders applicable to any Prudential Contributed Subsidiary (whether or not related to the Prudential Contributed Business) or Prudential Transferor with respect to the Prudential Contributed Business that are material to the Prudential Contributed Subsidiaries or the Prudential Contributed Business. To the Knowledge of Prudential, no Governmental Authority has advised Prudential, any Prudential Contributed Subsidiary or any Prudential Transferor that it is contemplating issuing any Order of a type referred to above in this clause (ii).

(k) Compliance with Laws; Permits.

(i) Except as set forth on Schedule 4.2(k)(i), each Prudential Contributed Subsidiary and each Prudential Transferor is conducting and has conducted the Prudential Contributed Business and is using and operating and has used and operated the Prudential Contributed Assets in compliance with all Laws applicable to it except for any such failures to be in such compliance that would not, individually or in the aggregate, be reasonably expected to have a Material Adverse Effect on the Prudential Contributed Business.

(ii) Except as set forth on Schedule 4.2(k)(ii), each Prudential Contributed Subsidiary and each Prudential Transferor has obtained and holds (or in the case of Prudential Contributed Subsidiaries formed after the date hereof, will by Closing obtain and hold) all Permits necessary for the conduct of the Prudential Contributed Business, in each case except for any Permits the failure of which to obtain would not, individually or in the aggregate, be reasonably expected to result in a Material Adverse Effect on the Prudential Contributed Business. Except as set forth on Schedule 4.2(k)(ii), there is no Claim pending or, to the Knowledge of Prudential, threatened by any Governmental Authority that would result in the nonrenewal, revocation, cancellation or suspension, or any adverse modification, of any such Permits, and the execution and delivery of this Agreement and other Transaction Documents, and the consummation of the

transactions contemplated hereby and thereby will not result in any such nonrenewal, revocation, cancellation, suspension or modification, in each case except as would not, individually or in the aggregate, be reasonably expected to result in a Material Adverse Effect on the Prudential Contributed Business. No Prudential Transferor or Prudential Contributed Subsidiary is in violation of any Permits applicable to it with respect to the Prudential Contributed Assets or the Prudential Contributed Business, except for any such violations that would not, individually or in the aggregate, be reasonably expected to have a Material Adverse Effect on the Prudential Contributed Business.

(iii) Each Prudential Contributed Subsidiary and Prudential Transferor has timely filed all registrations, declarations, reports, notices, forms and other filings required to be filed with the SEC, NASD, NYSE or any other Governmental Authority, and all amendments or supplements to any of the foregoing (the "Prudential Contributed

Business Filings"), except where any failure to file would not, individually or in the aggregate, be reasonably expected to result in a Material Adverse Effect on the Prudential Contributed Business. The Prudential Contributed Business Filings were prepared in all material respects, where applicable, in accordance with applicable Law, and all fees and assessments due and payable in connection therewith have been paid in all material respects.

(iv) Each Prudential Contributed Subsidiary, each Prudential Transferor and each of their respective employees is (or, in the case of Prudential Contributed Subsidiaries not yet formed, will at the Closing be) duly registered, licensed or qualified as a broker-dealer and/or investment adviser in each jurisdiction where the conduct of its business requires such registration, licensing or qualification, and is (or, in the case of Prudential Contributed Subsidiaries not yet formed, will at the Closing be) in compliance with all Laws requiring any such registration, licensing or qualification and is (or, in the case of Prudential Contributed Subsidiaries not yet formed, will at the Closing be) subject to no material liability or disability by reason of the failure to be so registered, licensed or qualified.

(v) Prudential has delivered or made available to Wachovia a true and complete copy of currently effective Forms BD and ADV as filed with the SEC by each applicable Subsidiary of Prudential conducting the Prudential Contributed Business, all state and other federal registration forms, all reports and all material correspondence filed by each such applicable Subsidiary with any Governmental Authority under the Exchange Act, the Investment Company Act, the Advisers Act and under similar state statutes within the last three years, in each case with respect to the Prudential Contributed Business. Prudential shall deliver to Wachovia such forms and reports as are filed by each Subsidiary of Prudential conducting the Prudential Contributed Business from and after the date hereof until the Closing. The information contained in such forms and reports was (or will be, in the case of any forms and reports filed after the date hereof) complete and accurate in all material respects as of the time of filing thereof.

(vi) Except as disclosed on Forms ADV or BD filed prior to the date of this Agreement, neither any Prudential Contributed Subsidiary (whether or not related to the Prudential Contributed Business), any Prudential Transferor (with respect to the Prudential Contributed Business) nor any of their respective directors, officers, employees, "associated persons" (as defined in the Exchange Act) or "affiliated persons" (as defined in the Investment Company Act) has been the subject of any disciplinary proceedings or Orders of any Governmental Authority arising under applicable Laws which would be required to be disclosed on Forms ADV or BD. No such disciplinary proceeding or Order is pending or, to the Knowledge of Prudential, threatened. Except as disclosed on such Forms ADV or BD filed prior to the date of this Agreement, neither any Prudential Contributed Subsidiary, any other Subsidiary of Prudential conducting the Prudential Contributed Business nor any of their respective directors, officers, employees, associated persons or affiliated persons, has been permanently enjoined by the Order of any Governmental Authority from engaging or continuing any conduct or practice in connection with any activity or in connection with the purchase or sale of any security. Except as disclosed on such Forms ADV or BD filed prior to the date of this Agreement, neither any Prudential Contributed Subsidiary, any Prudential Transferor nor any of their respective directors, officers, employees, associated persons or affiliated persons is or has been ineligible to serve as an investment adviser under the Advisers Act or as a broker-dealer or an associated person of a broker-dealer under Section 15(b) of the Exchange Act (including being subject to any "statutory disqualification" as defined in Section 3(a)(39) of the Exchange Act), or ineligible to serve in, or subject to any disqualification which would be the basis for any limitation on serving in, any of the capacities specified in Section 9(a) or 9(b) of the Investment Company Act.

(vii) Each Prudential Contributed Subsidiary and each Prudential Transferor has at all times since December 31, 1999 or its date of formation, whichever is later, rendered investment advisory services to investment advisory clients with whom such entity is or was a party to an investment advisory agreement or similar arrangement in material compliance with all applicable requirements as to portfolio composition and portfolio management including, but not limited to, the terms of such investment advisory agreements, written instructions from such investment advisory clients, prospectuses or other offering materials, board of directors or trustee directives and applicable Law. No Prudential Contributed Subsidiary is, or is

required to register as, an "investment company" within the meaning of the Investment Company Act.

(viii) Schedule 4.2(k)(viii) sets forth a complete list of all securities exchanges, commodities exchanges, boards of trade, clearing organizations, trade associations and similar organizations in which the Prudential Contributed Subsidiaries and the Prudential Transferors with respect to the Prudential Contributed Business hold membership or have been granted trading privileges.

(ix) Schedule 4.2(k)(ix) sets forth with respect to each Prudential Contributed Subsidiary and each Prudential Transferor with respect to the Prudential Contributed Business a complete list of all (i) broker-dealer licenses or registrations and (ii) all licenses and registrations as an investment adviser under the Advisers Act or any similar state Laws. No Prudential Contributed Subsidiary is, or is required to be, registered as a futures commission merchant, commodities trading adviser, commodity pool operator or introducing broker under the Commodities Futures Trading Act or any similar state Laws.

(x) All of the activities conducted by the Prudential Contributed Subsidiaries and the Prudential Transferors are "financial in nature" or "incidental to a financial activity" within the meaning of Section 225.86 of Regulation Y promulgated by the Board of Governors of the Federal Reserve System under the Bank Holding Company Act of 1956, as amended, and no Prudential Entity is subject to any Law or Order that would prevent or make unlawful the conduct by any Company Entity of the Contributed Businesses.

(l) Tax. Except as set forth on Schedule 4.2(l) or as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Prudential Contributed Business, (i) the Prudential Contributed Subsidiaries and the other Subsidiaries of Prudential with respect to the Prudential Contributed Business have timely filed (or Prudential has timely filed on their behalf) with the appropriate taxing authorities all Tax Returns required to be filed by or with respect to the Prudential Contributed Business, (ii) the Prudential Contributed Subsidiaries and the other Subsidiaries of Prudential with respect to the Prudential Contributed Business have paid in full (or Prudential has paid in full on their behalf) all Taxes due by or in respect of the Prudential Contributed Business for all periods, (iii) each Prudential Contributed Subsidiary and each other Subsidiary of Prudential with respect to the Prudential Contributed Business has duly and timely withheld all Taxes required to be withheld in connection with its business or assets, and such withheld Taxes have been either duly and timely paid to the proper Governmental Authorities or properly set aside in accounts for such purpose, (iv) there are no material outstanding adjustments for Tax purposes applicable to any Prudential Contributed Subsidiary or other Subsidiary of Prudential with respect to the Prudential Contributed Business and required as a result of changes in methods of accounting effected on or before the Closing Date, which adjustments will remain in force or by which any Prudential Contributed Subsidiary or other Company Entity will be bound after the Closing Date, (v) no material elections for Tax purposes have been made by any Prudential Contributed Subsidiary or other Subsidiary of Prudential with respect to the Prudential Contributed Business that will remain in force or by which any Prudential Contributed Subsidiary or other Company Entity will be bound after the Closing Date, (vi) no Prudential Contributed Subsidiary is a party to or bound by or has any rights or obligations under any Tax allocation, sharing, indemnity or similar agreement or arrangement that will remain in effect after the Closing Date, and (vii) no Prudential Contributed Subsidiary is or has been a member of any group of companies filing a consolidated, combined or unitary Tax Return for any Tax period for which the statute of limitations for the assessment or collection of any Tax remains open, other than

a group of which Prudential or one of its Subsidiaries has at all times been the common parent.

(m) Individual Benefit Plans and Related Matters; ERISA.

(i) Individual Benefit Plans.

(A) Schedule 4.2(m)(i)(A) sets forth a complete and correct list of each Prudential Contributed Business Plan. With respect to each such Prudential Contributed Business Plan, Prudential has provided or made available to Wachovia complete and correct copies of: (x) such Prudential Contributed Business Plan, if written, or a description of

such Prudential Contributed Business Plan if not written, (y) to the extent applicable to such Prudential Contributed Business Plan, all trust agreements, insurance contracts or other funding arrangements, the two most recent actuarial and trust reports, the two most recent Forms 5500 required to have been filed with the IRS and all schedules thereto, the most recent IRS determination letter, all current summary plan descriptions, all material written communications received from or sent to the IRS, the Pension Benefit Guaranty Corporation or the Department of Labor, the most recent actuarial report regarding any post-employment life or medical benefits provided under any such Prudential Contributed Business Plan, the most recent statements or other communications regarding Prudential withdrawal or other multiemployer plan liabilities, if any, and (z) all amendments and modifications with a prospective effect to any Prudential Contributed Business Plan and related trust agreements and/or insurance contracts or other funding arrangements. In addition, Prudential has indicated on Schedule 4.2(m)(i)(A) which Prudential Contributed Business Plans are deferred compensation, supplemental defined benefit retirement, stock and other equity (or equity-based) compensation, short-term bonus, and retiree welfare benefit plans and non-compete, non-solicitation, and nondisclosure agreements. Prudential has also indicated on Schedule 4.2(m)(i)(A) all employment contracts of the Prudential Contributed Business Individuals (the "Prudential Employment Agreements"). Of such employment contracts, (I) Prudential shall indicate with one asterisk those employment contracts that do not require the employee's consent to be assigned to the Company (those individuals with such contracts, the "Assignable Employees"), and (II) Wachovia shall designate with the marking "(MA)" those employment contracts that Wachovia has not, as of February 14, 2003, been fully provided (the "Missing Employment Agreements").

(B) Except as set forth on Schedule 4.2(m)(i)(B), none of Prudential or any member of the Prudential Contributed Business has communicated in writing to any Prudential Contributed Business Individual any intention or commitment to modify any Prudential Contributed Business Plan or to establish or implement any other

employee, retiree or independent contractor benefit or compensation plan or arrangement following the date of this Agreement.

(ii) Qualification. Each Prudential Contributed Business Plan intended to be qualified under Section 401(a) of the Code is so qualified and has received a favorable determination letter from the IRS as to its qualification under the Code and to the effect that any trust forming a part thereof is exempt from taxation under Section 501(a) of the Code, and nothing has occurred since the date of such determination letter that could reasonably be expected to adversely affect such qualification or tax-exempt status.

(iii) Compliance; Liability.

(A) Neither Prudential nor any Prudential Related Person has been involved in any transaction that would reasonably be expected to cause, following the Closing, any Company Entity to be subject to liability under Section 4069 or 4212 of ERISA. Neither Prudential nor any Prudential Related Person has incurred (either directly or indirectly, including as a result of an indemnification obligation) any material liability under or pursuant to Title IV of ERISA or the penalty, excise Tax or joint and several liability provisions of the Code relating to employee benefit plans and, to the Knowledge of Prudential, no event, transaction or condition has occurred or exists that would, individually or in the aggregate, reasonably be expected to result in any such liability to, following the Closing, Wachovia or any of its Affiliates or any Company Entity. All contributions and premiums required to have been paid or accrued through the Closing Date by Prudential and each Prudential Related Person to any Prudential Contributed Business Plan under the terms of any such plan or its related trust, insurance contract or other funding arrangement (whether as a result of the transactions contemplated by the Transaction Documents or otherwise) or pursuant to any applicable Law or collective bargaining agreement (including ERISA and the Code) have been paid within the earliest time prescribed by any such plan, agreement or applicable Law or have been properly accrued and

none of the Company Entities shall be liable for any such contributions or premiums unless such have been so accrued on the Final Closing Balance Sheet of the Prudential Contributed Business.

(B) Each of the Prudential Contributed Business Plans has been operated and administered in all material respects in compliance with its terms, all applicable Laws and all applicable collective bargaining agreements. There are no material pending or, to the Knowledge of Prudential, threatened, Claims by or on behalf of any of the Prudential Contributed Business Plans, by any Prudential Contributed Business Individual or otherwise involving any such Prudential Contributed Business Plan or the assets of any Prudential Contributed Business Plan (other than routine claims for benefits, all of which have been fully

reserved for on the balance sheet included in the Financial Statements of the Prudential Contributed Business).

(C) Except as set forth on Schedule 4.2(m)(iii)(C), no Prudential Contributed Business Plan is or will be, as a result of the Closing, a multiemployer plan (as defined in Section 4001(a)(3) of ERISA) or a "multiple employer plan" within the meaning of Section 4063 or 4064 of ERISA.

(D) Each Prudential Contributed Business Plan that is subject to the minimum funding standards of ERISA or the Code satisfies such standards under Sections 412 and 302 of the Code and ERISA, respectively, and no such Prudential Contributed Business Plan has incurred an "accumulated funding deficiency" within the meaning of such sections, whether or not waived. No "prohibited transaction" (within the meaning of Section 406 of ERISA and Section 4975 of the Code) has occurred or would reasonably be expected to occur with respect to any Prudential Contributed Business Plan that would reasonably be expected to result, individually or in the aggregate, in a material liability to any Company Entity.

(E) Except as set forth on Schedule 4.2(m)(iii)(E) or as otherwise provided in Section 8.4 of this Agreement, no Prudential Contributed Business Individual is or will become, on and after the Closing, entitled to receive post-employment benefits of any kind by reason of employment with any member of the Prudential Contributed Business under any Prudential Contributed Business Plan for which any of the Company Entities will bear any expense, including, without limitation, death or medical benefits (whether or not insured), other than (I) coverage mandated by Section 4980B of the Code or (II) retirement benefits payable under any Prudential Contributed Business Plan qualified under Section 401(a) of the Code. In addition, all agreements with (x) any independent contractor that provides services to any Prudential Contributed Subsidiaries and (y) any Third Party service provider (including, without limitation, any vendor or administrator) that provides services with respect to the Prudential Contributed Business Plans or the Prudential Transferees, may in any of the cases described in clauses (x) and (y) above, be terminated in accordance with the terms of any such agreement without liability to Wachovia or its Affiliates or any Company Entity at any time, other than fees payable in the normal course for services rendered prior to such termination.

(F) Except as set forth on Schedule 4.2(m)(iii)(F), the announcement or consummation of the transactions contemplated by this Agreement and the other Transaction Documents, either alone or in combination with a subsequent event, will not result in the payment or provision of, or an increase in the amount of, compensation or benefits or

the acceleration of the vesting or timing of payment of any compensation or benefits payable to or in respect of any Prudential Contributed Business Individual or the funding of any grantor trust relating to such individual.

(G) All Prudential Contributed Business Plans that are welfare benefit plans or nonqualified deferred compensation plans may be terminated without liability to Wachovia or its Affiliates or any Company Entity at any time (or with such

applicable notice to participants as any such plans may require).

(H) None of Wachovia, its Affiliates, any Company Entity or any Benefit Plan (other than the Prudential Pension Plan) is entitled, or has any rights or Claims, to any assets of the Prudential Pension Plan.

(I) All participants in the Prudential Securities General Partners Pension Plan have, prior to or as of the date hereof, terminated employment with Prudential and its Subsidiaries.

(iv) Foreign Plans. Except as set forth in Schedule 4.2(m)(iv), no Prudential Contributed Business Plan is maintained outside the jurisdiction of the United States, or covers any Prudential Contributed Business Individual residing or working outside the United States that is not required and sponsored by a Governmental Authority in such jurisdiction (any such Benefit Plan set forth in Schedule 4.2(m)(iv), the "Foreign Prudential Plans"). With respect to any Foreign Prudential Plans, (i) all Foreign Prudential Plans have been established, maintained and administered in material compliance with their terms and all applicable Law, and no unfunded liability exists with respect to any such plan, and (ii) no material liability or obligation of the Prudential Contributed Business exists, or would, individually or in the aggregate, be reasonably expected to arise either in connection with the transactions contemplated under this Agreement and the other Transaction Documents or otherwise with respect to any failure to comply with the applicable Laws, in any of the foregoing cases with respect to the Foreign Prudential Plans.

(n) Labor. Neither Prudential nor a Subsidiary of Prudential is a party to or bound by any collective bargaining agreement, contract or other understanding with a labor union or labor organization with respect to the Prudential Contributed Business Individuals, and to the Knowledge of Prudential, there is no activity involving the Prudential Contributed Business Individuals seeking to certify a collective bargaining unit or engaging in any similar organizational activity. Prudential and its Subsidiaries are in compliance with its obligations pursuant to WARN, and all other notification and bargaining obligations arising under any collective bargaining agreement, statute or otherwise. In no event shall Wachovia or its Affiliates or any of the Company Entities have or bear any liability or responsibility with respect to WARN arising on or prior to the Closing Date as a result of the transactions contemplated by this Agreement as it applies to any Prudential Contributed Subsidiary or Prudential Contributed Business Individual, unless such liability arises as a result of any action (or any failure to act) by

Wachovia or any Company Entity after the Closing Date. Except to the extent a failure to do so would not, individually or in the aggregate, be reasonably expected to have a Material Adverse Effect on the Prudential Contributed Business, the Prudential Contributed Subsidiaries have complied with all applicable Laws pertaining to the employment or termination of employment of the Prudential Contributed Business Individuals, including without limitation, all such Laws relating to labor relations, equal employment opportunities, fair employment practices, prohibited discrimination or distinction and other similar employment activities.

(o) Intellectual Property.

(i) Prudential has made available to Wachovia complete and correct lists as of the date hereof of all material patents, registered trademarks, registered copyrights, domain names and applications with respect to any of the foregoing with respect to all Prudential Business IP.

(ii) To the Knowledge of Prudential: (A) each Prudential Contributed Subsidiary and each Prudential Transferor with respect to the Prudential Contributed Business has the right to use all Intellectual Property used by it in or for the benefit of the Prudential Contributed Business, free and clear of all Liens other than Permitted Liens, Liens pursuant to licenses that are not included in the Prudential Contributed Assets and Liens created pursuant to this Agreement and the other Transaction Documents, (B) each Prudential Contributed Subsidiary and each Prudential Transferor with respect to the Prudential Contributed Business has taken commercially reasonable steps to protect and maintain the Prudential Business IP, and the Prudential Business IP is valid, enforceable and currently subsisting, and (C) the Intellectual Property used by Prudential and its Subsidiaries with respect to the Prudential Contributed Business and the use thereof in the manner in which such Intellectual Property is currently used in the Prudential Contributed Business does not

Infringe the rights of others, the Prudential Business IP is not being Infringed by others, and, except as identified on Schedule 4.2(o), Prudential and its Subsidiaries have not with respect to the Prudential Contributed Business, received any written claims alleging Infringement of any Third Party's Intellectual Property within the last two years (without regard to whether any such claim has been settled), except, in the case of (A), (B) or (C), as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Prudential Contributed Business.

(iii) Each Prudential Contributed Subsidiary and each Prudential Transferor with respect to the Prudential Contributed Business has established and maintains a commercially reasonable security program, including technology, practices, procedures, and processes meeting or exceeding industry standards that are designed to protect the integrity of transactions executed through its IT Systems, including using encryption and/or other security protocols and techniques when appropriate.

(p) Environmental. Except as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Prudential Contributed Business:

(i) Each Prudential Contributed Subsidiary and each Prudential Transferor with respect to the Prudential Contributed Business has complied and is in compliance with all applicable Environmental Laws pertaining to the Prudential Contributed Assets (including its Contributed Real Property) held by it and the use and ownership thereof, and to the operation of the Prudential Contributed Business;

(ii) No violation by any Prudential Contributed Subsidiary or any Prudential Transferor with respect to the Prudential Contributed Business is being alleged of any applicable Environmental Law relating to any of the Prudential Contributed Assets (including its Contributed Real Property) held by it or the use or ownership thereof, or to the operation of the Prudential Contributed Business; and

(iii) No Prudential Contributed Subsidiary or Prudential Transferor with respect to the Prudential Contributed Business or any other Person (including any tenant or subtenant) has caused or taken any action that will result in, and no Prudential Contributed Subsidiary or Prudential Transferor with respect to the Prudential Contributed Business is subject to, any liability or obligation relating to (x) the environmental conditions on, under, or about the Contributed Real Property of Prudential or other properties or assets owned, leased, operated or used by any Prudential Contributed Subsidiary or Prudential Transferor with respect to the Prudential Contributed Business at the present time or in the past, including without limitation, the air, soil and groundwater conditions at such properties or (y) the past or present use, management, handling, transport, treatment, generation, storage, disposal or Release of any Hazardous Materials.

(q) Insurance. The Prudential Contributed Subsidiaries and the Prudential Transferors with respect to the Prudential Contributed Business maintain insurance policies (or are covered by insurance policies maintained by or on behalf of Prudential or its other Subsidiaries) for the Prudential Contributed Business that are customary in scope and amount of coverage. All of such insurance policies are in full force and effect, and no Prudential Contributed Subsidiary or Prudential Transferor is in default in any material respect with respect to its obligations under any of such insurance policies. All premiums or payments payable under all such insurance policies for periods prior to and ending on the date hereof have been duly paid or accrued therefor on the Financial Statements of the Prudential Contributed Business.

(r) Affiliate Transactions.

(i) Set forth on Schedule 4.2(r) is a complete and correct list of all contracts, arrangements or other transactions (other than the Transaction Documents), whether or not entered into in the ordinary course of business, to or

by which any Prudential Contributed Subsidiary or Prudential Transferor, on the one hand, and a Prudential Entity, on the other hand, are or have been a party or otherwise bound or affected, which: (A) will be in effect after the Prudential Pre-Closing Conversion, and

(B) either (x) involve liabilities and obligations that are material to any Prudential Contributed Subsidiary or other Subsidiary of Prudential with respect to the Prudential Contributed Business or (y) provide any Prudential Contributed Subsidiary or Prudential Transferor with respect to the Prudential Contributed Business any material benefits.

(ii) At the Closing, none of the Prudential Contributed Subsidiaries will be a party or subject to any contract with any of the Prudential Entities or their respective Affiliates except for any applicable Transaction Documents (or as contemplated thereby), as disclosed pursuant to Section 4.2(r)(i), or as otherwise disclosed in the Financial Statements of the Prudential Contributed Business.

(s) Accounting Controls. The Prudential Contributed Subsidiaries and the Prudential Transferors with respect to the Prudential Contributed Business have devised and maintained systems of internal accounting controls with respect to the Prudential Contributed Business sufficient to provide reasonable assurances that (i) all transactions are executed in accordance with management's general or specific authorization, (ii) all transactions are recorded as necessary to permit the preparation of financial statements in conformity with GAAP and to maintain proper accountability for items, (iii) access to their property and assets is permitted only in accordance with management's general or specific authorization, and (iv) the recorded accountability for items is compared with the actual levels at reasonable intervals and appropriate action is taken with respect to any differences, except with respect to (i) through (iv) for such failures as would not, individually or in the aggregate, reasonably be expected to have a Material Adverse Effect on the Prudential Contributed Business. Each Prudential Contributed Subsidiary and each Prudential Transferor that is registered as a broker-dealer has adopted record keeping systems that comply in all material respects with the requirements of applicable Law (including, in the case of U.S. broker-dealer entities, Section 17 of the Exchange Act and the rules and regulations thereunder) and the rules of all self-regulatory organizations having jurisdiction over such Prudential Contributed Subsidiary or Prudential Transferor with respect to the Prudential Contributed Business, and maintains its records in substantial compliance therewith.

(t) Corrupt Practices.

(i) No Prudential Contributed Subsidiary and no Prudential Transferor with respect to the Prudential Contributed Business, and to the Knowledge of Prudential, none of the senior managers of any Prudential Contributed Subsidiary or Prudential Transferor has been convicted of any criminal offense or found guilty of any civil offense in either case involving fraud, misrepresentation, dishonesty, breach of fiduciary duty, substantive violation of banking or corporate Tax laws, embezzlement or other fraudulent conversion or misappropriation of property.

(ii) No Prudential Contributed Subsidiary and no Prudential Transferor with respect to the Prudential Contributed Business has made any contribution or expenditure, whether in the form of money, products, services or facilities, in connection with any election for political office or to any public official except to the extent permitted by applicable Law. No Prudential Contributed Subsidiary and no Prudential Transferor with respect to the Prudential Contributed Business has offered or provided any unlawful remuneration, entertainment or gifts to any Person, including any official of a Governmental Authority, except for small payments to expedite or secure the performance of routine governmental action such as processing governmental papers (e.g., visas and shipping documents), providing mail or phone services, scheduling inspections and obtaining Permits.

(iii) Since December 31, 1999, each Prudential Contributed Subsidiary and each Prudential Transferor with respect to the Prudential Contributed Business has been in compliance in all material respects with all requirements applicable to it regarding anti-money laundering and anti-terrorist rules and regulations, including without limitation the applicable provisions of the USA PATRIOT Act and the rules and regulations thereunder.

(u) No Broker. Except for Goldman, Sachs & Co., Prudential is not, and no Prudential Contributed Subsidiary at the Closing will be, committed to any liability for any brokers' or finders' fees or any similar fees, including but not limited to any bonus payable to any director, officer, employee, agent or representative of or consultant to any Prudential Contributed Subsidiary or Prudential Transferor in connection with the transactions contemplated by this Agreement.

ARTICLE 5

CERTAIN INTERIM AND OTHER COVENANTS

Section 5.1 Conduct of Business Prior to Closing.

(a) Except as contemplated or permitted hereby (including pursuant to the Wachovia Reorganization or the Prudential Pre-Closing Conversion), as set forth on Schedule 5.1 or with the prior written consent of the other Party (which consent shall not be unreasonably withheld or delayed), and subject to the other provisions hereof (including Section 5.1(b)), between the date hereof and the Closing, each Party will, and will cause each of its respective Subsidiaries to, use their respective commercially reasonable efforts to conduct, in all material respects, their respective Contributed Businesses in the ordinary and usual course of business consistent with past practice, to preserve intact the business, business organization, properties, employees and goodwill with respect to such Contributed Businesses and to preserve for the Company existing business relations necessary in the conduct of such Contributed Businesses consistent with past practice. For the avoidance of doubt, it is understood and agreed that voluntary customer or employee attrition at a Party's Contributed Business following the execution and delivery and public announcement of this Agreement and the transactions contemplated hereby shall not, by itself, constitute a breach of such Party's obligations under this Section 5.1(a).

(b) Except as expressly contemplated or permitted hereby (including pursuant to the Wachovia Reorganization or the Prudential Pre-Closing Conversion), as set forth on Schedule 5.1, or with the prior written consent of the other Party (which consent will not be unreasonably withheld or delayed), between the date hereof and the Closing, each of the Parties shall not:

(i) permit any of its Contributed Subsidiaries to (A) issue any capital stock or other equity securities, (B) make, declare, pay or set aside any dividend or other distribution in respect of its capital stock or other equity securities, or (C) split, combine, reclassify, redeem, purchase or otherwise acquire or transfer any of its capital stock or other equity securities, except in each case in accordance with the Wachovia Reorganization or the Prudential Pre-Closing Conversion, as the case may be, and except for issuances, dividends and distributions to other Contributed Subsidiaries or to Wachovia or Prudential and to their other respective Wholly-Owned Subsidiaries, as applicable;

(ii) permit any of its Subsidiaries to incur or guarantee indebtedness for borrowed money or other obligations with respect to its Contributed Business, except in the ordinary course of business consistent with past practice;

(iii) permit any of its Subsidiaries to take (or fail to take) any action with respect to its Contributed Business that, if taken (or failed to have been taken) by the Company Entities after the Closing, would require the consent of the Members pursuant to Section 4.12 of the LLC Agreement or would result in a change in the respective initial Percentage Interests of the Wachovia Members and the Prudential Members in accordance with the terms of this Agreement and the LLC Agreement;

(iv) intentionally take or fail to take, or permit any of its Subsidiaries to intentionally take or fail to take, any action that would either (x) prevent the satisfaction of any conditions specified in Section 6.2 if such Party is Wachovia or (y) prevent the satisfaction of any conditions specified in Section 6.1 if such Party is Prudential;

(v) (A) dispose of any Contributed Subsidiary, except in accordance with the Wachovia Reorganization or the Prudential Pre-Closing Conversion, as the case may be; (B) except in the ordinary course of business consistent with past practice, dispose of any Wachovia Contributed Assets or Prudential Contributed Assets, as the case may be; or (C) except for pledges of securities held in inventory (or in trading positions) in the ordinary course of business consistent with past practice, mortgage, pledge or subject to any Lien other than a Permitted Lien any Wachovia Contributed Assets or Prudential Contributed Assets, as the case may be;

(vi) permit any Contributed Subsidiary to enter into any new material line of business or change its material investment, risk or other material operating policies; open any new offices or facilities or relocate or close any existing offices

or facilities, except in the ordinary course of business consistent with past practice and except for those openings, relocations or closings in progress or planned on the date hereof; or change in any material respect the pricing and terms of its customer services (except in response to changes in competitive conditions or prevailing market practices, but in any such case only after notice to and consultation with the other Party, to the extent permitted by applicable Law);

(vii) increase, or make any binding or non-binding commitment to increase, the benefits provided by any Benefit Plan, or the compensation levels of Wachovia or Prudential Contributed Business Individuals, as the case may be (including any across-the-board increases for any groups of such employees), or grant any bonus to, or increase the level of any bonus opportunity for, or adopt, amend or terminate any plan, agreement, program, policy or other arrangement relating to, any Contributed Business Individuals or any individual for whom any Company Entity will incur any liability, except (A) for amendments to any qualified defined benefit plan that will not increase the cost of maintaining the plan to any Company Entity; (B) for grants or increases required pursuant to any Benefit Plan or applicable Law; (C) for increases of compensation necessary to retain an individual Contributed Business Individual deemed essential to the Contributed Business, which shall not exceed the percentage of such individual's annual rate of salary as set forth on Schedule 1.1(y), the aggregate annualized cost of all such increases which shall not exceed the amount set forth on Schedule 1.1(y); (D) Prudential may adopt the Prudential Omnibus Incentive Plan and Prudential may make the Prudential Equity Awards (as defined in Section 8.4(f)(iv)) set forth on Schedule 5.1(b)(vii)(D) (which Schedule may be amended with Wachovia's consent after the date hereof); (E) Wachovia may pay, or may cause to be paid, annual incentive payments to Wachovia Contributed Business Individuals pursuant to the terms of the Wachovia Securities Brokerage Home Office Plan; (F) Wachovia may, in connection with determinations made by the proposed Chief Executive Officer of the Company after consultation with Prudential, provide the Contributed Business Individuals with communications regarding employment and/or retention plans or agreements to be entered into with such individuals; or (G) Wachovia may amend the Benefit Plans set forth on Schedule 5.1(b)(vii)(G), in the manner described in such Schedule;

(viii) except as provided in Section 5.1(b)(vii)(D) above, make any equity or other grants, including but not limited to options, stock or other equity-related awards, to any Contributed Business Individuals, except for any such grants made by Wachovia in the ordinary course of the Wachovia Contributed Business, consistent with past practice;

(ix) hire or transfer any Contributed Business Individual or any individual who is intended to be a Contributed Business Individual (including any employees hired as replacements for terminating employees) unless Prudential or Wachovia, as the case may be, reviews all such hires or transfers with the proposed Chief Executive Officer of the Company on at least a monthly basis, and provided that the maximum number of such new hires by Prudential and

Wachovia, respectively, and their Affiliates shall not exceed for each of Prudential and Wachovia, ten (10) individuals per month, up to an aggregate of seventy-five (75) individuals, excluding brokers and branch support personnel;

(x) expend, or commit to expend, funds for capital expenditures with respect to its Contributed Business in excess of $10 million in the aggregate;

(xi) settle or compromise any Claim of, against or affecting its Contributed Business (whether or not existing on the date of this Agreement) if such Claim would result in the issuance of an Order that would affect or apply to the Company Entities after the Closing, or would involve an admission of wrongdoing by any of the Company Entities or with respect to the Contributed Businesses;

(xii) except as may be required as a result of a change in GAAP approved in writing by the Party's independent accountants, change any of the accounting methods, practices or material policies used by such Party with respect to its Contributed Business, in each case as set forth in, or used in the preparation of, the Financial Statements of the Wachovia Contributed Business or the Financial Statements of the Prudential Contributed Business, as applicable;

(xiii) (A) enter into any contract, agreement or instrument that would constitute a Contributed Asset or amend, terminate or waive any rights under any such contract, agreement or instrument, as applicable, or (B) enter into, amend, terminate or waive any rights under any contract or agreement with any Party or its Subsidiaries with respect to its Contributed Business that would become a Contributed Asset or a Contributed Liability, or (C) permit any Subsidiary to do any of the foregoing; provided that, notwithstanding anything herein to the contrary, each Party and its Subsidiaries and other Affiliates may document and reduce to writing any transaction, agreement or other arrangement that is in effect on the date hereof as disclosed on Schedule 4.1(r) or 4.2(r); or

(xiv) enter into, or cause any Subsidiary of such Party with respect to its Contributed Business to enter into, any contract, commitment or understanding with respect to any of the foregoing.

Section 5.2 Access to Information.

(a) Between the date hereof and the Closing, each Party (the "delivering Party") shall, and shall cause its Subsidiaries to, give the other Party (the "requesting Party") and its representatives reasonable access at all reasonable times to the employees, representatives, properties, books and records of the delivering Party's Contributed Business and furnish them with such information and documents in its possession relating to such Contributed Business as the requesting Party may from time to time reasonably request in connection with the consummation of the transactions contemplated hereby and the performance of the requesting Party's obligations hereunder; provided that the requesting Party shall not unreasonably interfere with the conduct of business of the

delivering Party or any of its Subsidiaries; and provided, further, that the furnishing of such documents or information shall not violate confidentiality obligations to a client or jeopardize the attorney-client privilege of the delivering Party or any of its Subsidiaries (in which case the Parties will use their reasonable best efforts to institute appropriate substitute disclosure arrangements, to the extent practical in the circumstances).

(b) All such information and other documents obtained or provided pursuant to this Section 5.2 shall be subject to the Confidentiality Agreements.

Section 5.3 Consents; Conditions; Further Assurances.

(a) Between the date hereof and the Closing, each of the Parties hereby agrees to use its reasonable best efforts (i) to obtain, and to cause the Parties' respective Subsidiaries and other controlled Affiliates to use their respective reasonable best efforts to obtain, any and all Governmental Approvals and Third Party Approvals (including without limitation those listed on Schedule 4.1(e), in the case of Wachovia, or Schedule 4.2(e), in the case of Prudential) required in connection with the consummation of the transactions contemplated by this Agreement and the other Transaction Documents (including, but not limited to, any and all Governmental Approvals and Third Party Approvals to separate the Excluded Businesses and to otherwise consummate the Wachovia Reorganization with respect to Wachovia and the Prudential Pre-Closing Conversion with respect to Prudential), (ii) to comply, and cause the Parties' respective Subsidiaries and other controlled Affiliates to use their respective reasonable best efforts to comply, with all conditions and covenants applicable or related to it as contemplated by this Agreement and the other Transaction Documents, and (iii) to do, and cause the Parties' respective Subsidiaries and other controlled Affiliates to use their respective reasonable best efforts to do, all such other acts as are necessary or advisable in order to cause the consummation of the transactions contemplated hereby and by the other Transaction Documents.

(b) Without limiting the foregoing, between the date hereof and the Closing, each Party shall timely file, or cause to be timely filed, in each case in form and content in compliance with applicable Laws, and concurrently deliver to the other Party, copies of each registration, report, statement, notice, form or other filing requested or required to be filed by any of the first Party's or its Subsidiaries with the applicable Governmental Authority under the HSR Act, the Exchange Act, the Securities Act, the Advisers Act or any other similar Law.

(c) Without limiting the foregoing, each Party shall negotiate in good faith the terms and conditions of any Transaction Documents which are not attached as exhibits to this Agreement and which are to be executed and delivered after the date hereof and by the Closing.

(d) Each Party shall coordinate and cooperate prior to the Closing

with the other Party in exchanging such information and supplying such reasonable assistance as may be reasonably requested by the other Party in connection with any of the actions

contemplated by this Section 5.3, including without limitation any filings that are required to be made as a result of the transactions contemplated herein.

(e) At all times prior to the Closing Date, each Party shall promptly notify the other Party in writing of any fact, condition, event or occurrence that would reasonably be expected to result in the failure of any of the conditions contained in Section 6.2, in the case of Wachovia, and Section 6.1, in the case of Prudential, promptly upon becoming aware of the same.

(f) Each Party shall, and shall cause its Subsidiaries to, use reasonable best efforts to obtain any consents to the extent necessary or advisable from the investment advisory clients of its Contributed Business in connection with the "assignment" of any applicable investment advisory agreements that may occur as a result of the transactions contemplated hereby; provided that the other Party agrees that other than with respect to any such investment advisory agreement which by its terms expressly requires written consent to its assignment, effective consent to such "assignment" may be obtained for all purposes hereunder and under applicable Law by requesting written consent from the investment advisory client and informing such client of (i) the intention to complete the transactions contemplated hereby, (ii) the Company's and the relevant Subsidiaries' intention to continue the advisory services pursuant to the existing investment advisory agreement with such client after the Closing Date if such client does not terminate such agreement prior to the Closing Date, and (iii) that the consent of such client will be deemed to have been granted if such client continues to accept such advisory services for at least 45 days after receipt of such notice and does not terminate the investment advisory contract within that period. Each Party shall, and shall cause each of its Subsidiaries to, use its reasonable best efforts to send such notices to its investment advisory clients as soon as practicable after the date hereof.

(g) Without limiting the foregoing provisions of this Section 5.3, if (i) a Law is enacted or (ii) a Governmental Authority issues, or seeks the issuance of, an Order of the type that would cause the closing conditions set forth in Sections 6.1(c) and 6.2(c) to not be satisfied, the Parties shall, and shall cause their respective Subsidiaries to, use its and their reasonable best efforts to obtain the elimination of such Law or the lifting, withdrawal or termination of such Order or the termination of the efforts by such Governmental Authority to obtain the issuance of such an Order at the earliest practicable time and/or, for a period not to exceed 120 days after such event, to negotiate in good faith to implement alternative arrangements that will permit the Closing and the consummation of the transactions contemplated hereby to be consummated without a violation of such Law or Order.

(h) If, notwithstanding the Parties reasonable best efforts in accordance with this Section 5.3, the Parties are informed that any Governmental Authority the Governmental Approval of which is required in order to consummate the transactions contemplated hereby is unwilling to grant such Governmental Approval if the Parties cause the direct contribution of the Prudential Contributed Assets and Prudential Contributed Liabilities to a Designated Company Subsidiary, then in lieu of such contribution, Prudential shall

be entitled to take the following actions if Prudential reasonably concludes that such actions will facilitate the receipt of such Governmental Approval:

(i) Prudential shall organize a newly-formed limited liability company ("New Prudential Broker LLC") to accept the contribution of the Prudential Contributed Assets and Prudential Contributed Liabilities. New Prudential Broker LLC shall have no assets, liabilities or operations, shall be formed solely for the purpose of effecting the transactions contemplated hereby, and shall be formed pursuant to organizational documents (including a certificate of formation and limited liability company operating agreement) as shall be reasonably satisfactory to the Parties;

(ii) Prudential shall cause New Prudential Broker LLC to be licensed and registered as a broker-dealer, and to otherwise obtain all Permits as are necessary to permit New Prudential Broker LLC to conduct the Prudential Contributed Business following the contribution

referred to in clause (iii) below;

(iii) Immediately prior to the Closing, Prudential shall contribute to New Prudential Broker LLC the Prudential Contributed Assets and the Prudential Contributed Liabilities (and no other assets or liabilities of any kind or nature) on the same terms as the Prudential Transferors would have transferred the Prudential Contributed Assets and the Prudential Contributed Liabilities to the Designated Company Subsidiary pursuant to Section 2.4(c); and

(iv) At the Closing, Prudential shall cause New Prudential Broker LLC to be contributed to the Company in accordance with Section 2.4.

In the event that the actions enumerated above are taken, all references to the Prudential Contributed Subsidiaries herein shall be deemed to also include New Prudential Broker LLC and all references to the Prudential Contributed Equity Interests shall be deemed to also include all limited liability company interests of New Prudential Broker LLC.

Section 5.4 Certain Contracts and IP.

(a) Notwithstanding anything in this Agreement to the contrary, the Parties agree that only those Prudential Contracts designated with an asterisk in Schedule 4.2(i) have been accepted as Prudential Contributed Assets or Prudential Contributed Liabilities as of the date of this Agreement. During the period following the date of this Agreement and prior to the Closing Date, Prudential shall make available to Wachovia true and complete copies of all Prudential Contracts and each amendment, supplement or other modification thereto, and shall make its employees and other representatives reasonably available to assist Wachovia in completing its review of all such Prudential Contracts. Upon completion of such review, Wachovia shall be entitled to designate any or all of the remainder of the items listed on Schedule 4.2(i) as Prudential Contributed Assets and Prudential Contributed Liabilities, and any of such items not so designated by Wachovia shall be retained by the Prudential Entities as Prudential Excluded Assets and Prudential Excluded Liabilities and shall not be contributed to the Company on the Closing Date. In

connection with any such contracts constituting Shared Service Contracts, to the extent Wachovia elects to cause the contribution of such Shared Service Contracts to the Company, Wachovia shall be required to continue to make the benefits and related obligations thereunder available to the Prudential Entities to the extent and on substantially the same terms as are in effect on the date hereof, to the extent permitted by the terms of such contracts.

(b) If the Company elects after the Closing to terminate any lease, contract, agreement or instrument referred to in clause (xv) of the definition of Prudential Contributed Assets (each, a "Small Contract"), the amount of costs that the Company shall pay in connection with such terminations (including but not limited to early termination fees, prepayment penalties and similar charges), taken together with any payments made by Wachovia pursuant to Section 12.1 in respect of Small Contracts, shall not exceed the amount set forth in Schedule 5.4(b) for any such costs associated with any single such Small Contract or the aggregate amount set forth in Schedule 5.4(b) for such costs associated with all such Small Contracts. Prudential shall indemnify the Company for the amount of any such costs arising in connection therewith in excess of such maximum amounts set forth in Schedule 5.4(b).

(c) During the period following the date of this Agreement and prior to the Closing Date, Prudential shall make available to Wachovia information regarding the Prudential Business IP referred to in the definition of Prudential Contributed IP and shall make its employees and other representatives reasonably available to assist Wachovia in completing its review of all such Prudential Business IP. Upon completion of such review, Wachovia shall be entitled to designate any such Prudential Business IP as Prudential Contributed IP, and any of such items not so designated by Wachovia shall be retained by the Prudential Entities as Prudential Excluded Assets and Prudential Excluded Liabilities and shall not be contributed to the Company on the Closing Date, but shall be licensed to the Company Entities pursuant to the Prudential Intellectual Property License Agreement.

Section 5.5 Sufficiency of Assets.

(a) Each Party shall, and shall cause its Subsidiaries to, use its and their reasonable best efforts to employ, own, license, lease or otherwise have access to the services of, pursuant to an appropriate service or other agreement, as of the Closing, all of the Persons, properties and assets (real, personal, mixed, tangible or intangible) that (i) are necessary in

any material respect for the conduct of, or otherwise material to, its Contributed Business (including, without limitation, the services provided by its Contributed Business) and (ii) generated in any material respect the results of operations set forth in the statements of income included in the Financial Statements of the Wachovia Contributed Business or the Financial Statements of the Prudential Contributed Business, as the case may be (other than employees who have terminated their employment with, or refused employment with, its Subsidiaries). Upon discovery that such Party's Subsidiaries do not employ, own, license, lease or have such rights with respect to such Persons, properties or assets, the Parties shall consult with one another about the most appropriate manner in which such Persons, properties or assets should be

provided to the Company Entities, including by way of contribution thereof or the provision of services to such Company Entities pursuant to a servicing or similar agreement, in each case within a reasonable amount of time after such discovery and consultation.

(b) The Parties shall, and shall cause their Subsidiaries to, use reasonable best efforts to obtain all such Third Party Approvals and Governmental Approvals as may be necessary or appropriate to assign or transfer any interest in any instrument, Permit, contract, lease or other agreement or arrangement or any claim, right or benefit arising thereunder or resulting therefrom, as may be contemplated by this Agreement (or in lieu thereof (with the consent of the other Party, to the extent required pursuant to Section 5.1(b), which consent will not be unreasonably withheld or delayed), agree with the counterparty to replace any such instrument, Permit, contract, lease or other agreement or arrangement related thereto on terms which will satisfy the requirements of Section 6.1(d) or 6.2(d), as applicable (without regard to the exception at the end thereof).

(c) This Agreement shall not constitute an agreement to assign or transfer any interest in any instrument, Permit, contract, lease or other agreement or arrangement or any Claim, right or benefit arising thereunder or resulting therefrom, if an assignment or transfer or an attempt to make such an assignment or transfer without a Third Party Approval or Governmental Approval would constitute a breach or violation thereof or affect adversely the rights of the Parties, the Company or any of their respective Subsidiaries thereunder; and any assignment or transfer to the Parties, the Company or any of their respective Subsidiaries of any interest under any such instrument, Permit, contract, lease or other agreement or arrangement that requires a Third Party Approval or Governmental Approval shall be made subject to such Third Party Approval or Governmental Approval being obtained. If any such Third Party Approval or Governmental Approval is not obtained on or prior to the Closing Date (and no adequate substitute therefor or replacement thereof has been obtained pursuant to Section 5.5(b)), the Parties shall continue to use all reasonable efforts to obtain any such Third Party Approval or Governmental Approval (or in lieu thereof agree with the counterparty to replace any such instrument, Permit, contract, lease, license or other agreement or arrangement on terms which would have satisfied the requirements of Section 6.1(d) or 6.2(d), as applicable (without regard to the exception at the end thereof), had it occurred prior to the Closing) after the Closing Date until such time as such Third Party Approval or Governmental Approval (or substitute or replacement in lieu thereof) has been obtained, and until such time as such Third Party Approval or Governmental Approval (or substitute or replacement in lieu thereof) is obtained, the Parties and the Company shall enter into alternative arrangements, the expense of which shall be paid in accordance with Section 12.1, until such time as such Third Party Approval or Governmental Approval (or substitute or replacement in lieu thereof) has been obtained so that the Company Entities shall receive the benefits and assume the obligations thereunder in accordance with this Agreement. Nothing in this Section 5.5 shall relieve the Parties of their respective obligations under any other provision of this Agreement.

(d) To the extent that, after the Closing, the Company or either Party discovers the inclusion of any asset or liability on the Final Closing Balance Sheets that is not a

Contributed Asset or Contributed Liability: (x) the applicable Company Entity that acquired or retained such asset shall transfer such asset to the applicable transferor Party thereof in exchange for a payment by such Party of an amount in cash equal to the reported value of such asset on the applicable Final Closing Balance Sheet, and (y) the applicable Company Entity that acquired or retained such liability shall transfer such liability to the applicable transferor Party thereof and shall make a payment to such Party of an amount in cash equal to the reported value of such liability on the applicable Final Closing Balance Sheet; provided that

the amounts payable pursuant to this Section 5.5(d) or Section 5.5(e) shall be netted against each other to the fullest extent possible.

(e) To the extent that, after the Closing, the Company or either Party discovers the failure to include any asset or liability on the Final Closing Balance Sheets that is a Contributed Asset or Contributed Liability: (x) the Party that should have transferred such asset shall transfer such asset to the Company and in exchange receive a payment from the Company of an amount in cash equal to the value of such asset as of the Closing Date (as initially determined in good faith by the Company and notified to both Parties) as if it had been included in the applicable Final Closing Balance Sheet, and (y) the Party that should have transferred such liability shall transfer such liability to the Company, and such Party shall pay to the Company an amount in cash equal to the cost of such liability as of the Closing Date (as initially determined in good faith by the Company and notified to both Parties) as if it had been included in the applicable Final Closing Balance Sheet; provided that the amounts payable pursuant to this Section 5.5(e) or Section 5.5(d) shall be netted against each other to the fullest extent possible; and provided, further, that any disagreement between the Parties as to the value of any such asset or liability shall be resolved by following the procedures set forth in Section 2.5(b).

Section 5.6 Transfer Taxes. Wachovia shall be responsible for the payment of any transfer or similar Taxes resulting from the Wachovia Reorganization and the contribution of the Wachovia Contributed Membership Interests to the Company at the Closing. Prudential shall be responsible for the payment of any transfer or similar Taxes resulting from the Prudential Pre-Closing Conversion and the contribution of the Prudential Contributed Assets to the Company at the Closing.

Section 5.7 Tax Sharing Agreements. Wachovia shall terminate or cause to be terminated prior to the Closing any Tax sharing agreement or arrangement to which any Wachovia Contributed Subsidiary, on the one hand, and Wachovia or any of its Affiliates, on the other hand, are parties. Prudential shall terminate or cause to be terminated prior to the Closing any Tax sharing agreement or arrangement to which any Prudential Contributed Subsidiary, on the one hand, and Prudential or any of its Affiliates, on the other hand, are parties.

Section 5.8 Taxes.

(a) Prudential's Obligations. Except to the extent expressly included and provided for in the calculation of Prudential Tangible Book Value reflected in the Final Closing Balance Sheet of the Prudential Contributed Business, Prudential shall (i) pay (and file or cause to be filed all Tax Returns with respect to) all Taxes attributable to the Prudential Contributed Business or payable by any of the Prudential Contributed

Subsidiaries in respect of taxable periods ending on or before the Closing Date, including, without limitation, any Tax for which a Prudential Contributed Subsidiary is entitled to receive, but does not receive or collect, a contribution or indemnity from a Third Party (in which case Prudential shall be subrogated to such claim); (ii) pay any amounts required to be paid to satisfy liabilities of any of the Prudential Contributed Subsidiaries arising under any Tax allocation, sharing, indemnity or similar agreement or arrangement entered into on or prior to the Closing Date or, with respect to any taxable period ending on or before the Closing Date, under Section 1.1502-6 of the Treasury Regulations (or any comparable provision of state, local or foreign Law); (iii) pay all Straddle Period Taxes attributable to the Prudential Contributed Business or payable by any of the Prudential Contributed Subsidiaries attributable to the portion of the relevant Straddle Period ending on the Closing Date, together with, in each case, all costs and expenses incurred in connection with the assessment or collection thereof; and (iv) pay all Taxes attributable to the conversion, following the Closing Date, of a Prudential Contributed Subsidiary listed on Schedule 4.2(b) to an entity that is disregarded or treated as a partnership for United States federal income tax purposes.

(b) Wachovia's Obligations. Except to the extent expressly included and provided for in the calculation of Wachovia Tangible Book Value reflected in the Final Closing Balance Sheet of the Wachovia Contributed Business, Wachovia shall (i) pay (and file or cause to be filed all Tax Returns with respect to) all Taxes attributable to the Wachovia Contributed Business or payable by any of the Wachovia Contributed Subsidiaries in respect of taxable periods ending on or before the Closing Date, including, without limitation, any Tax for which a Wachovia Contributed Subsidiary is entitled to receive, but does not receive or collect, a contribution or indemnity from a Third Party (in which case Wachovia shall be subrogated to such claim); (ii) pay any amounts required to be paid to satisfy liabilities of any of the Wachovia Contributed Subsidiaries arising under

any Tax allocation, sharing, indemnity or similar agreement or arrangement entered into on or prior to the Closing Date or, with respect to any taxable period ending on or before the Closing Date, under Section 1.1502-6 of the Treasury Regulations (or any comparable provision of state, local or foreign Law); and (iii) pay all Straddle Period Taxes attributable to the Wachovia Contributed Business or payable by any of the Wachovia Contributed Subsidiaries attributable to the portion of the relevant Straddle Period ending on the Closing Date, together with, in each case, all costs and expenses incurred in connection with the assessment or collection thereof.

(c) The Company's Obligations. Prudential and Wachovia shall cause the Company to pay or cause to be paid (and file or cause to be filed all Tax Returns with respect to) all Taxes (i) required to be paid by each of the Prudential Contributed Subsidiaries and each of the Wachovia Contributed Subsidiaries for all taxable periods ending after the Closing Date or (ii) expressly included and provided for in the calculation of Tangible Book Value reflected in the Final Closing Balance Sheet of the Wachovia Contributed Business or of the Prudential Contributed Business; provided, however, that with respect to Straddle Period Taxes required to be paid by any Prudential Contributed Subsidiary or with respect to the Prudential Contributed Business or Wachovia Contributed Subsidiary or with respect to the Wachovia Contributed Business (other than such Taxes referred to in clause (ii)), the Company shall be entitled to be

reimbursed by Prudential or Wachovia, as the case may be, for such Straddle Period Taxes to the extent attributable to the portion of the relevant Straddle Period ending on the Closing Date.

(d) Contests.

(i) Prudential shall have the right to represent the interests of each of the Prudential Contributed Subsidiaries in and to control the conduct of any Tax audit or administrative or court proceeding (a "Tax Contest") to the extent relating to Taxes that are described as being the responsibility of Prudential in Section 5.8(a).

(ii) Wachovia shall have the right to represent the interests of each of the Wachovia Contributed Subsidiaries in and to control the conduct of any Tax Contest to the extent relating to Taxes that are described as being the responsibility of Wachovia in Section 5.8(b).

(iii) The Company and Wachovia shall jointly represent the interests of each of the Wachovia Contributed Subsidiaries in any Tax Contest to the extent relating to Straddle Period Taxes. The Company and Prudential shall jointly represent the interests of each of the Prudential Contributed Subsidiaries in any Tax Contest to the extent relating to Straddle Period Taxes.

(iv) If the resolution of any Tax Contest could result in an increase in the amount of Taxes required to be paid by any Party pursuant to this Section 5.8, (A) the Party (the "Controlling Tax Party") in control of such Tax Contest shall keep the Party (the "Non-Controlling Tax Party") not in control of such Tax Contest fully informed of any proceedings, events and developments relating to or in connection with such Tax Contest; (B) the Non-Controlling Tax Party shall be entitled to receive copies of all correspondence and documents relating to such Tax Contest; and (C) if requested, the Controlling Tax Party shall consult with the Non-Controlling Tax Party or its counsel and shall not enter into any settlement with respect to any such Tax Contest that could result in a claim for indemnification against the Non-Controlling Tax Party hereunder or that purports to bind any of the Contributed Subsidiaries of the Non-Controlling Tax Party after the Closing without the Non-Controlling Tax Party's prior written consent, which consent shall not be unreasonably withheld.

(e) Exclusivity. The provisions of this Section 5.8 shall exclusively govern all rights to indemnification pursuant to this Agreement with respect to Taxes. Without limiting the generality of the foregoing, the representations and warranties contained in Sections 4.1 and 4.2 of this Agreement shall have no effect on the matters set forth in this Section 5.8, and any breach of such representations and warranties shall provide no independent claim for indemnification or recovery with respect to Taxes from or by either Party.

(f) Cooperation. The Parties shall consult with one another to determine in good faith whether transactions contemplated by this Agreement and the LLC Agreement that may be consummated after the Closing can be accomplished in an alternative manner that will optimize the Tax results

for the Parties and their respective Affiliates, taken as a whole.

Section 5.9 Real Estate Matters. Following the date hereof and prior to the Closing, the Parties shall prepare, execute and deliver: (i) with respect to the Contributed Real Property of Wachovia identified on Schedule 1.1(m), a special warranty deed in proper form for recording in the appropriate jurisdiction from the owner of each Contributed Real Property of Wachovia to one or more Designated Company Subsidiaries, (ii) with respect to the Contributed Leased Real Property of Prudential Securities identified on Schedule 1.1(d), an assignment between Prudential Securities as assignor and one or more Designated Company Subsidiaries as assignee providing for the assignment of such Contributed Leased Real Property to one or more Designated Company Subsidiaries; and (iii) with respect to the Prudential Excluded Businesses Leased Real Property identified on Schedule 5.9(a), a sublease agreement between one or more Designated Company Subsidiaries as sublessor and the relevant Prudential Entity as sublessee granting such relevant Prudential Entity the right to use or occupy such Prudential Excluded Businesses Leased Real Property, on the same terms as are reflected in the underlying lease or sublease, as applicable, (including, without limitation, the Contributed Leased Real Property located at One New York Plaza, New York, New York), with costs and expenses proportionately adjusted, and (iv) with respect to the Prudential Excluded Leased Real Property identified on Schedule 5.9(b), a sublease agreement mutually agreed upon by the Parties granting one or more Designated Company Subsidiaries the right to use or occupy such Prudential Excluded Leased Real Property.

Section 5.10 Wachovia Reorganization. After the date of expiration of the condition set forth in clause (ii) of Section 6.1(e), if the Wachovia Reorganization is not completed at the time the other conditions to Closing are satisfied or waived, the Parties shall negotiate in good faith to make such modifications to the Transaction Documents as are necessary to provide for the separate operations of the Wachovia Excluded Businesses within the Wachovia Contributed Subsidiaries and for the full and exclusive enjoyment of the benefits of such operations by Wachovia after the Closing.

ARTICLE 6

CONDITIONS TO CLOSING

Section 6.1 Conditions to Wachovia's Obligations. The obligation of Wachovia to perform its obligations set forth in Section 2.4 and to consummate the Closing is subject to the fulfillment, at or prior to the Closing, of the following conditions:

(a) Representations and Warranties.

(i) Each of the representations and warranties of Prudential in this Agreement shall have been true and correct when made subject to such exceptions as do not have and would not reasonably be expected to have, individually or in

the aggregate with all other breaches of representations and warranties, a Material Adverse Effect on the Company, and Wachovia shall have received a certificate from an executive officer of Prudential to such effect; and

(ii) Each of the representations and warranties of Prudential set forth in Sections 4.2(a), (c), (h)(i) and (h)(ii), all of which shall be deemed to have been made again at and as of the Closing Date, shall be true and correct at and as of the Closing Date, subject to such exceptions as do not have and would not be reasonably be expected to have, individually or in the aggregate with all other breaches of representations or warranties, a Material Adverse Effect on the Company, and Wachovia shall have received a certificate from an executive officer of Prudential to such effect.

(b) Performance of Agreements. Prudential shall have performed and complied with in all material respects the obligations, covenants and conditions applicable to Prudential contained in Sections 5.1 through 5.4(a) and Sections 5.5(a) and (b), 5.7 and 5.9 to be performed and complied with by Prudential at or prior to the Closing, and Wachovia shall have received a certificate from an executive officer of Prudential to such effect; provided that solely for purposes of this Section 6.1(b), the obligations of Prudential under Sections 5.5(a) and (b) shall be deemed to have been satisfied if the condition set forth in Section 6.1(a)(ii) shall have been satisfied as of the Closing Date.

(c) No Injunction. At the Closing Date, there shall be no Order of any Governmental Authority of competent jurisdiction in effect, and no pending or threatened Claim brought by any Governmental Authority of competent jurisdiction which seeks the issuance or entry of an Order, and no Law in effect, that (i) restrains or prohibits or renders illegal either (A) the Closing or (B) the consummation of the other transactions contemplated by

the Transaction Documents (including the Prudential Pre-Closing Conversion and the Wachovia Reorganization), other than, in the case of clause (B), such other transactions the failure of which to be so consummated would not reasonably be expected, either individually or in the aggregate, to have a Material Adverse Effect on the Company or to otherwise materially and adversely affect the economic benefits of the transactions contemplated by this Agreement for Wachovia, as determined in Wachovia's reasonable judgment, or (ii) would impose on the Company or Wachovia criminal penalties or significant civil penalties (unless such civil penalties would be fully indemnified pursuant to Article 7) or would otherwise impair in any significant respect the business of the Company or Wachovia if the Closing or such other transactions were to occur notwithstanding the existence of such Order.

(d) Consents and Approvals. All Governmental Approvals set forth in Schedule 6.1(d) shall have been obtained and shall be in full force and effect without any condition or requirement that would reasonably be expected to have a Material Adverse Effect on the Company; any applicable waiting periods in respect thereof shall have been satisfied; and all Third Party Approvals required in connection with the execution and delivery by Prudential and its Subsidiaries of this Agreement and the other Transaction Documents and the performance of their respective obligations hereunder and thereunder and the consummation by Prudential and its Subsidiaries of the transactions contemplated hereby

and thereby shall have been obtained and shall be in full force and effect, or adequate substitute arrangements on comparable terms (including cost) shall have been implemented at Prudential's expense, to the extent such expense exceeds the limits set forth in the second proviso of Section 12.1, and with Wachovia's consent (which consent shall not be unreasonably withheld or delayed), except in any such case for such Third Party Approvals as would not reasonably be expected, either individually or in the aggregate, to have a Material Adverse Effect on the Company.

(e) Wachovia Reorganization and Prudential Pre-Closing Conversion. (i) Prudential shall have completed the Prudential Pre-Closing Conversion in all material respects in accordance with Section 2.2(b); provided that the failure of any Prudential Contributed Subsidiary listed on Schedule 4.2(b) to be converted to an entity which is disregarded for U.S. federal income tax purposes shall not be treated as a material failure to complete the Prudential Pre-Closing Conversion; and (ii) Wachovia shall have completed the Wachovia Reorganization in all material respects in accordance with Section 2.2(a); provided that the condition set forth in this clause (ii) shall be of no further force or effect on and following August 1, 2003.

Section 6.2 Conditions to Prudential's Obligations. The obligation of Prudential to perform its obligations set forth in Section 2.4 and to consummate the Closing is subject to the fulfillment, at or prior to the Closing, of the following conditions:

(a) Representations and Warranties.

(i) Each of the representations and warranties of Wachovia in this Agreement shall have been true and correct when made subject to such exceptions as do not have and would not reasonably be expected to have, individually or in the aggregate with all other breaches of representations and warranties, a Material Adverse Effect on the Company, and Prudential shall have received a certificate from an executive officer of Wachovia to such effect; and

(ii) Each of the representations and warranties of Wachovia set forth in Sections 4.1(a), (c), (h)(i) and (h)(ii), all of which shall be deemed to have been made again at and as of the Closing Date, shall be true and correct at and as of the Closing Date, subject to such exceptions as do not have and would not be reasonably be expected to have, individually or in the aggregate with all other breaches of representations or warranties, a Material Adverse Effect on the Company, and Prudential shall have received a certificate from an executive officer of Wachovia to such effect.

(b) Performance of Agreements. Wachovia shall have performed and complied with in all material respects the obligations, covenants and conditions applicable to Wachovia contained in Sections 5.1 through 5.4(a) and Sections 5.5(a) and (b), 5.7 and 5.9 to be performed and complied with by Wachovia at or prior to the Closing, and Prudential shall have received a certificate from an executive officer of Wachovia to such effect; provided that solely for purposes of this Section 6.2(b), the obligations of

Wachovia under Sections 5.5(a) and (b) shall be deemed to have been satisfied if the condition set in Section 6.2(a)(ii) shall have been satisfied as of the Closing Date.

(c) No Injunction. At the Closing Date, there shall be no Order of any Governmental Authority of competent jurisdiction in effect, and no pending or threatened Claim brought by any Governmental Authority of competent jurisdiction which seeks the issuance or entry of an Order, and no Law in effect, that (i) restrains or prohibits or renders illegal either (A) the Closing or (B) the consummation of the other transactions contemplated by the Transaction Documents (including the Prudential Pre-Closing Conversion and the Wachovia Reorganization), other than, in the case of clause (B), such other transactions the failure of which to be so consummated would not reasonably be expected, either individually or in the aggregate, to have a Material Adverse Effect on the Company or to otherwise materially and adversely affect the economic benefits of the transactions contemplated by this Agreement for Prudential, as determined in Prudential's reasonable judgment, or (ii) would impose on the Company or Prudential criminal penalties or significant civil penalties (unless such civil penalties would be fully indemnified pursuant to Article 7) or would otherwise impair in any significant respect the business of the Company or Prudential if the Closing or such other transactions were to occur notwithstanding the existence of such Order.

(d) Consents and Approvals. All Governmental Approvals set forth in Schedule 6.2(d) shall have been obtained and shall be in full force and effect without any condition or requirement that would reasonably be expected to have a Material Adverse Effect on the Company; any applicable waiting periods in respect thereof shall have been satisfied; and all Third Party Approvals required in connection with the execution and delivery by Wachovia and its Subsidiaries of this Agreement and the other Transaction Documents and the performance of their respective obligations hereunder and thereunder and the consummation by Wachovia and its Subsidiaries of the transactions contemplated hereby and thereby shall have been obtained and shall be in full force and effect, or adequate substitute arrangements on comparable terms (including cost) shall have been implemented with Prudential's consent (which consent shall not be unreasonably withheld or delayed), except in any such case for such Third Party Approvals as would not reasonably be expected, either individually or in the aggregate, to have a Material Adverse Effect on the Company.

(e) Wachovia Reorganization. Wachovia shall have completed the Wachovia Reorganization in all material respects in accordance with Section 2.2(a); provided that the condition set forth in this clause (e) shall be of no further force or effect on and following August 1, 2003.

ARTICLE 7

INDEMNIFICATION

Section 7.1 Survival of Representations and Warranties.

(a) The representations and warranties contained in Sections 4.1 and 4.2 will survive the Closing until the second anniversary of the Closing except that the representations and warranties set forth in subsections (a), (b), (c), (d), (g), (m) and (u) of Sections 4.1 and 4.2 will survive until the expiration of the relevant statute of limitations and except that the representations and warranties set forth in subsection (l) of Sections 4.1 and 4.2 shall not survive the Closing.

(b) Notwithstanding the foregoing, any representation or warranty shall, to the extent that a Claim with respect thereto is timely asserted in writing on or prior to the expiration thereof, survive until a final adjudication or resolution of such Claim thereto.

(c) The representations and warranties contained in Article 4, and the rights and remedies that may be exercised by any Person seeking indemnification hereunder, shall not be limited or otherwise affected by or as a result of any information furnished to, or any investigation made by, any such Person or its representatives.

(d) The right of an Indemnitee to indemnification or to otherwise receive payments pursuant to Section 5.8 or Section 7.2(b), (c) or (d) shall be separate and in addition to, and shall not be limited by, such Person's right to indemnification pursuant to Section 7.2(a), and shall survive any termination or expiration of the representations and warranties set forth in this Agreement pursuant to this Section 7.1.

Section 7.2 Indemnification. Subject to the limitations set forth in this Article 7, each Party (the "Indemnitor") shall indemnify, defend and hold harmless the other Party, the other Party's Affiliates and the Company Entities and their Affiliates, including but not limited to their respective

directors, officers, employees, partners, managers, members, shareholders (other than the shareholders of the Parties), agents and representatives (collectively, the "Indemnitees"), from and against any losses, damages, liabilities, costs, expenses (including but not limited to legal fees and expenses), fees, penalties, fines, judgments, settlements and Claims of whatever kind and nature (each, a "Loss" and, in the aggregate, "Losses") incurred by an Indemnitee arising out of:

(a) the failure of any representation or warranty to be true and correct when made (or when deemed to be made) by the Indemnitor in this Agreement;

(b) the failure by the Indemnitor or any of its Subsidiaries (other than the Company Entities) to perform any of its or their covenants or agreements contained in this Agreement (including, without limitation, any failure to comply with any provision of, or any failure to satisfy any liability or other obligation assumed or retained by such Party or its Subsidiaries pursuant to, Sections 5.8 or 8.4);

(c) in the case of Wachovia, the Wachovia Excluded Liabilities and any Excluded Claims, and in the case of Prudential, the Prudential Excluded Liabilities and any Excluded Claims, except in each case as specifically set forth in Section 7.6(b)(ii)(D)(3) and (4);

(d) (i) in the case of Wachovia, events that occurred or the operation of the Wachovia Contributed Business prior to the Closing, except to the extent expressly included and provided for in the Final Closing Balance Sheet of the Wachovia Contributed Business, and (ii) in the case of Prudential, events that occurred or the operation of the Prudential Contributed Business prior to the Closing, except to the extent expressly included and provided for in the Final Closing Balance Sheet of the Prudential Contributed Business, or except as specifically set forth in Section 7.6(b)(ii)(D)(3) or (4); or

(e) the failure of any representation or warranty that was true and correct when made by the Indemnitor in this Agreement to continue to be true and correct as of the Closing (or as of such other date as is expressly specified in such representation and warranty as the date at which such representation and warranty is true) as if such representation and warranty were made again at the Closing (or such other specified date).

Section 7.3 Limitations on Amounts.

(a) An Indemnitor shall have no liability under Section 7.2(a):

(i) for any Claim (or series of related Claims), which totals less than $50,000 in Losses; and

(ii) until the amount of Losses theretofore indemnifiable by the Indemnitor but for this sentence exceeds an aggregate amount equal to $10 million (excluding Claims (or series of related Claims) subject to clause (i)) (the "Threshold");

in which case the Indemnitees shall be entitled to indemnification of all Losses including Losses that would have been covered by Section 7.2(a) but for the Threshold, but excluding Claims (or related series of Claims) subject to clause (i) above. If an Indemnitor elects to assume the defense of, or settle or compromise, any Claim, the Indemnitees shall reimburse the Indemnitor for any Losses actually paid by the Indemnitor in connection therewith to the extent such Losses, together with any prior Losses subject to the limitation of Section 7.3(a)(ii), do not result in total Losses of the Indemnitees which exceed the Threshold.

(b) An Indemnitor's aggregate liability under Section 7.2(a) shall in no event exceed $1 billion (the "Cap").

Section 7.4 Other Indemnification Provisions.

(a) For all purposes of this Article 7, the amount of Losses arising out of any breach of a representation or warranty (other than the first sentences of each of Sections 4.1(i) and 4.2(i), and all of Sections 4.1(o)(i) and 4.2(o)(i) and Sections 4.1(r) and 4.2(r)), and whether a representation or warranty has been breached, shall be determined without regard to qualifications of materiality or of Material Adverse Effect and without regard to whether the matter giving rise to such Losses was disclosed to the other Party (or its representatives) or was investigated by the other Party (or its representatives).

(b) Notwithstanding anything to the contrary contained in this Article

7, no Indemnitor shall be liable for any indirect, consequential or punitive damages related to or arising in connection with any indemnification in this Article 7, except in cases where such damages are recovered from an Indemnitee by a Third Party.

(c) In no event shall any Indemnitee recover more than once for any Loss, regardless of whether alternative theories of recovery exist under this Agreement or applicable Law.

(d) This Article 7 sets forth the Parties' exclusive remedy for any Loss that may result from the breach of any of the representations or warranties contained in this Agreement or any other matter arising under this Agreement, except for (A) Losses resulting from the willful misconduct or fraud of an Indemnitor or its Affiliates, (B) the remedies for an "Intentional Breach" by a Party pursuant to Section 9.3 and (C) as otherwise specifically set forth in this Agreement.

(e) Notwithstanding anything to the contrary contained herein, no Indemnitor shall be required to indemnify any Indemnitee for any Loss relating to a reduction in the value of the Company or any of its Subsidiaries to the extent the Company or any of its Subsidiaries is indemnified therefor in accordance with the terms hereof.

(f) If any Indemnitee receives any amounts in respect of Losses previously paid by the Indemnitor or obtains any judgment or award in any litigation relating to an Excluded Liability or Excluded Claim of such Indemnitor which was previously paid by such Indemnitor, the Indemnitee shall distribute such amounts received to the Indemnitor.

(g) This Agreement shall not be deemed to amend or otherwise modify the provisions or application of any indemnification or similar agreement between (x) any broker or other employee of a Party or a Company Entity and (y) such Party or its Subsidiaries or such Company Entity. In addition, notwithstanding any provision in this Agreement to the contrary, nothing in this Agreement shall (x) require the Indemnitor to indemnify the brokers or other employees of the Indemnitor or any of its Subsidiaries or the Company Entities or (y) be deemed to waive any right of the Indemnitor to receive reimbursement from such brokers or other employees for, among other things, Losses caused by their criminal conduct, willful misconduct or bad faith.

Section 7.5 Procedures. In the event any Indemnitee should have a Claim under this Article 7 against any Indemnitor that does not involve a Claim being asserted against

or sought to be collected from such Indemnitee by a Third Party, the Indemnitee shall deliver notice of such Claim, specifying in reasonable detail the basis therefor, with reasonable promptness to the Indemnitor. The failure or delay by any Indemnitee so to notify the Indemnitor shall not relieve the Indemnitor from any liability which it may have to such Indemnitee, except to the extent that the Indemnitor has been materially prejudiced by such failure or delay. If the Indemnitor does not notify the Indemnitee within 15 Business Days following its receipt of such notice that the Indemnitor disputes its liability to the Indemnitee, such Claims specified by the Indemnitee in such notice shall be conclusively deemed a liability of the Indemnitor, and the Indemnitor shall pay the amount of such liability to the Indemnitee on demand or, in the case of any notice in which the amount of the Claims (or any portion thereof) is estimated, on such later date when the amount of such Claim (or such portion thereof) becomes finally determined.

Section 7.6 Procedures for Third Party Claims. The following procedures shall apply to all matters or circumstances that may result in a Loss by reason of a Claim brought by a Third Party, including but not limited to a Claim that may be asserted by a Governmental Authority ("Third Party Claims"; provided that the term "Third Party Claim" shall include a Claim that may be asserted by an employee of a Party or Company Entity and shall not include any Claim governed by Section 5.8):

(a) Notice. Promptly after an Indemnitee receives written notice of any matter or circumstance that may reasonably be expected to result in a Loss to such Indemnitee by reason of a Third Party Claim, the Indemnitee shall give written notice thereof to the Indemnitor. The right to indemnification hereunder will not be affected by any failure of an Indemnitee to give such notice (or delay by any Indemnitee in giving such notice) unless (and then only to the extent that) the rights and remedies of the Indemnitor have been materially prejudiced as a result of the failure to give, or the delay in giving, such notice. The notice of the Third Party Claim shall describe the Third Party Claim in reasonable detail, including an indication of the estimated amount (to the extent feasible) of the Loss that has been or may be incurred by the Indemnitee.

(b) Control of Third Party Claims. Third Party Claims shall be controlled as follows:

(i) Except as provided in Section 7.6(b)(ii) or for Excluded Claims referred to in Section 7.6(g), which shall be administered in accordance with that Section, the Indemnitor shall be the Person entitled to control the defense of such Third Party Claim (the "Controlling Party") and shall: (A) retain outside counsel of its own choosing, which counsel shall be reasonably acceptable to the Indemnitee, and (B) control and direct the defense of any such Third Party Claim, including the development and implementation of legal strategy for such Third Party Claim, and subject to Section 7.6(c), the decision to settle or compromise (or not to settle or compromise) such Third Party Claim.

(ii) Notwithstanding Section 7.6(b)(i), with respect to any Third Party Claim in respect of which, if adversely determined, one or more of (x) the Company Entities or their Affiliates, (y) Wachovia or its Affiliates, and/or (z)

Prudential or its Affiliates, would reasonably be expected to incur Losses for which such Person is not fully indemnified pursuant to Section 7.2 (each such Third Party Claim, a "Joint Loss Claim"):

(A) The Parties shall mutually determine in good faith whether (x) Prudential and its Affiliates, (y) Wachovia and its Affiliates, or (z) the Company Entities and their Affiliates, in each case, would be reasonably likely to incur Losses with respect to such Joint Loss Claim and, in each case, the amount of such Losses;

(B) Based on such mutual determination, if (x) Prudential and its Affiliates would reasonably be likely to incur the greatest aggregate amount of Losses in respect of such Joint Loss Claim, then Prudential shall be the Controlling Party with respect to such Joint Loss Claim, (y) Wachovia and its Affiliates would reasonably be likely to incur the greatest aggregate amount of such Losses in respect of such Joint Loss Claim, then Wachovia shall be the Controlling Party with respect to such Joint Loss Claim, or (z) the Company Entities and their Affiliates would reasonably be likely to incur the greatest aggregate amount of such Losses in respect of such Joint Loss Claim, then the Company shall be the Controlling Party with respect to such Joint Loss Claim;

(C) The Controlling Party shall (1) retain outside counsel of its own choosing, which counsel shall be reasonably acceptable to the Indemnitee(s), and (2) control and direct the defense of any such Joint Loss Claim, including the development and implementation of legal strategy for such Joint Loss Claim and, subject to Section 7.6(c), the decision to settle or compromise (or not to settle or compromise) such Joint Loss Claim; provided that, for purposes of clarity, the Indemnitor shall continue to pay the legal fees and similar expenses for defending such Joint Loss Claim until the resolution of such Joint Loss Claim; and provided, further, that upon the resolution of such Joint Loss Claim, each Indemnitee shall pay the Indemnitor its pro rata portion of such legal fees and similar expenses paid by the Indemnitor based on the ratio that the unindemnifiable Losses incurred by such Indemnitee have to the total amount of Losses payable by the Indemnitor;

(D) Notwithstanding the foregoing, if Prudential or any of its Affiliates is the Controlling Party of such Joint Loss Claim as to which Losses may result, and if the Company delivers written notice to the Indemnitor that it elects to control the defense of such Joint Loss Claim for any reputational or other concerns, then:

(1) The Indemnitor shall not have the rights as the Controlling Party set forth in clause (C), and the Company shall be the Controlling Party with respect to such Joint Loss Claim pursuant to this clause (D);

(2) The Company shall (x) retain outside counsel of its own choosing, which counsel shall be reasonably acceptable to the Indemnitor, and (y) control and direct the defense of any such Joint Loss Claim, including the development and implementation of

legal strategy for such Joint Loss Claim and, subject to Section 7.6(c), the decision to settle or compromise (or not to settle or compromise) such Joint Loss Claim;

(3) From and after the delivery of the Company's notice of election to control the defense of such Joint Loss Claim, the Company shall be responsible for, and shall from time to time pay, 50% of all legal fees and similar expenses incurred for defending such Joint Loss Claim and the Indemnitor shall be responsible for paying the remainder of such fees and expenses; and

(4) Upon the resolution of such Joint Loss Claim, the Company shall be responsible for and pay 50% of the Losses incurred by it and the other Indemnitees (excluding the legal fees and similar expenses already paid by it for defending such Third Party Claim) and the Indemnitor shall be responsible for paying the remainder of such Losses.

(iii) Except as explicitly set forth in clauses (D)(3) and (D)(4), nothing in Section 7.6(b)(ii) shall be deemed to relieve the Indemnitor from indemnifying the Company Entities and their Affiliates to the extent any of them are Indemnitees hereunder. To the extent that the Company is intended to be the "Controlling Party" pursuant to Section 7.6(b)(ii), the Company shall, and the Parties agree to cause the Company to, comply with Sections 7.6(c) through (f) as the Controlling Party thereunder.

(c) Settlements. If required by the Controlling Party, the Indemnitee (and, if the Company is the Controlling Party, the Indemnitor) shall agree to any strategic decision (including settlement or compromise) made by the Controlling Party; provided that the Controlling Party must first obtain the Indemnitee's consent (and, if the Company is the Controlling Party, the Indemnitor's consent) (each of which shall be timely sought and shall not be unreasonably withheld or delayed) to any settlement or compromise pursuant to which Losses are not fully indemnified or which imposes equitable relief or any regulatory sanctions on (or would require a Governmental Approval by) the Indemnitee (and if the Company is not the Controlling Party, any of the Company Entities) or involves an admission of misconduct or wrongdoing or any other non-monetary sanctions; and provided, further, that if the Company is the Controlling Party, then in addition to the foregoing, the Company must first obtain the consent of the Indemnitor (which shall be timely sought and shall not be unreasonably withheld or delayed) to the total dollar amount of money damages payable by the Indemnitor pursuant to such settlement or compromise. If the Controlling Party fails to assume the defense of a Third Party Claim, the Indemnitee (or, if the Controlling Party is the Company, the Indemnitor)

may defend, settle or otherwise compromise the Third Party Claim; provided that any such settlement or compromise shall require the consent of the Controlling Party (or the Indemnitor, as the case may be) (each of which shall be timely sought and shall not be unreasonably withheld or delayed).

(d) Conflicts of Interest. The Indemnitee in respect of any Claim shall be entitled to engage separate counsel of its choice to participate in the defense of such Claim; provided that, except as set forth in the remainder of this Section 7.6(d), the fees and expenses of such separate counsel shall be borne solely by the Indemnitee and shall not be subject to reimbursement by the Indemnitor; and provided, further, that this sentence shall not affect, in any respect, the control of such Claim as provided in Section 7.6(b). Notwithstanding the foregoing, if the defendants in a Claim include both an Indemnitee and the Indemnitor, and counsel to the Indemnitee (or, if the Indemnitee is the Controlling Party, counsel to the Indemnitor) shall have reasonably concluded that joint representation would be inappropriate due to potential or actual conflicts of interest between the Controlling Party, the Indemnitor and/or the Indemnitee, the Indemnitee shall have the right to retain a single firm of separate counsel reasonably acceptable to the Controlling Party (and, if the Company is the Controlling Party, the Indemnitor) (each of which consents shall be timely sought and shall not be unreasonably withheld or delayed) to participate in the defense of that Claim on behalf of such Indemnitee and at the expense of the Indemnitor (and, if the Company is the Controlling Party, only as set forth in Sections 7.6(b)(ii)(D)(3) and (4)).

(e) Status. The Controlling Party shall, at least monthly, notify the Indemnitee (and, if the Company is the Controlling Party, the Indemnitor) regarding the status, including any significant developments, with respect to Third Party Claims the defense of which is being conducted by the Controlling Party on behalf of an Indemnitee (or the Indemnitor, as the

case may be).

(f) Defense of Claims against Officers and Directors. Notwithstanding any provision to the contrary regarding the rights of an Indemnitor to be the Controlling Party with respect to Third Party Claims, to the extent that any senior executive officer or director of a Party is named as a defendant in a Third Party Claim under circumstances in which such individual is an Indemnitee, that individual nevertheless may, at its sole discretion, conduct its own defense or elect to transfer the defense to the Indemnitor, in either situation with the cost of the defense to be borne by the Indemnitor.

(g) Pre-Closing Litigation. Without limiting any other provision in this Agreement, and for purposes of clarifying the Parties' intent only, the Parties agree that (i) each Party shall remain responsible for, and control, all litigation with respect to its Contributed Business pending or threatened in writing immediately prior to the Closing, including without limitation any Claims pending or threatened in writing by each Party as plaintiff relating to its Contributed Business (which Claims such Party shall continue to prosecute and shall use good faith efforts to obtain a favorable judgement or settlement), (ii) no such litigation shall be contributed to, or be the responsibility of, the Company Entities, which shall be treated as Indemnitees for purposes of Article 7 with respect to all such litigation (it being understood that any settlement of any Claim being pursued as

plaintiff will not be settled without the consent of the Company (which consent shall not be unreasonably withheld or delayed) if such settlement would impair the value of any Contributed Asset in any respect and any proceeds of any such settlement with respect to any Contributed Asset shall be paid over to the Company), and (iii) such litigation shall be administered by the current counsel appointed with respect thereto (including in-house counsel, whose allocated costs shall be borne by such Party and not passed through to any Company Entity) in accordance with the current procedures applicable thereto, but subject to the procedures and limitations reflected in Sections 7.6(c) through (f).

Section 7.7 Mutual Assistance. The Indemnitor and Indemnitee shall reasonably cooperate with each other in the defense of any Claim subject to indemnity pursuant to this Article 7. Without limiting the foregoing, after the Closing, Wachovia agrees that it will, and that it will cause the other Wachovia Entities to, and Prudential agrees that it will, and will cause the other Prudential Entities to, and the Parties agree to cause the Company and the other Company Entities to, cooperate with each of the Parties, the Company and their respective Subsidiaries, generally seek to avoid the imposition of regulatory sanctions on the Parties, the Company or their Subsidiaries to the extent reasonable under the circumstances, and furnish to each of them access to such employees and other Persons under their control, and such information, documents, records, evidence, testimony and other assistance as any of them may reasonably request, in connection with any actions, proceedings, arrangements or disputes of any nature involving or affecting the Company Entities that reasonably relate to matters that occurred prior to the Closing and in which any of them, as the case may be, was involved or for which such Person has records, information or knowledge. The reasonable expenses incurred by any Person in complying with any request for cooperation pursuant to this Section 7.7 shall be borne by the Indemnitor or other Person requesting such cooperation; provided, however, that such expenses shall not include incidental time incurred by employees of any Party responding to such a request for cooperation.

ARTICLE 8

FURTHER AGREEMENTS

The Parties further agree as follows:

Section 8.1 No Commitments. Each Party agrees that, except for the liabilities to be assumed by the Company pursuant to this Agreement and the other Transaction Documents or as expressly contemplated or permitted hereby or thereby, neither it nor any of its Subsidiaries will take, without the prior written consent of the other Party, any action that will commit or bind the Company or any Member thereof (in such capacity) to any act, agreement, contract or undertaking of any kind or nature whatsoever.

Section 8.2 Confidentiality after the Closing.

(a) As used herein, "Information" means all technical, financial and other information (including but not limited to information relating to customers of the Company Entities or the other Party and information of any regulatory nature) whatsoever, in whatever form it may be held, relating to the business and operations of the Company and the other

Company Entities, or so furnished under the Transaction Documents and made available to the Company Entities or a Party in connection with the transactions contemplated hereby. For purposes of this Section 8.2, the term "Party" shall include such Party and all its Affiliates, and the term "Company Entity" shall include such Company Entity and all its Affiliates.

(b) Each Party shall, and shall cause its Subsidiaries to, comply with the provisions of Law regarding confidentiality as they relate to any Party or Company Entity. Without limiting the foregoing, each Party and the Company shall, and shall cause their Subsidiaries to, comply with all applicable federal, state and other Laws (including Title V of the Gramm-Leach-Bliley Act of 1999, as amended) relating to the sharing and disclosure of personally identifiable customer information or any other Information that may be covered thereby.

(c) Each Party shall treat all Information of the other Party and of each Company Entity with the same degree of care and confidentiality that it affords its own trade secrets and proprietary information. Except as permitted pursuant to Section 12.2 and Schedule 8.2(g), each Party agrees not to disclose or communicate to any Person (other than, to the extent permitted by Law, to any agents or Subsidiaries of such Party who need to know such Information, or counterparties to any contracts or agreements with such Party who need to know such information for valid business purposes in furtherance of the transactions contemplated by the Transaction Documents (collectively, "Information Representatives" of such Party), in each case who are informed of and agree to comply with the terms and conditions of this Section 8.2), in any manner whatsoever, any Information supplied by any Party or the Company Entities, without the prior written consent of the Party or Company Entity that furnished such Information. Each Party shall be responsible for any breach of the terms of this Section 8.2 by any Information Representative of such Party.

(d) Each Party agrees to use Information received from the other Party or the Company Entities only in connection with the transactions contemplated by the Transaction Documents, and for no other purpose, except as otherwise expressly permitted by this Agreement.

(e) Nothing contained herein shall be construed as restricting or creating any liability for the disclosure, communication or use of Information that:

(i) is or becomes publicly known through no wrongful act of the disclosing Party or its Affiliates;

(ii) is received, without breach of this Agreement, from a Person who is not known by the disclosing Party to be under any confidentiality obligation to the other Party or any Company Entity with respect thereto;

(iii) is disclosed pursuant to Law, including the rules of any stock exchange on which such Party's securities are listed; provided, however, that prior to any such disclosure, the disclosing Party shall provide advance written notice to the other Party of its intention to do so pursuant to this exception to the extent that it is practicable in the circumstances to do so; or

(iv) is information regarding the Company Entities (but not the Prudential Entities or Wachovia Entities) disclosed in connection with a due diligence review related to a proposed acquisition, merger, consolidation or other reorganization involving a Party or to any financing by a Party, including financings which are offerings of debt or equity securities issued by such Party; provided that the recipient of such Information agrees to be bound in writing by the provisions of this Section 8.2.

(f) The provisions of Sections 8.2(a) through (e) and (g) shall become effective only upon the occurrence of the Closing. The terms of the Confidentiality Agreements shall remain in full force and effect up to and immediately prior to the Closing, and, notwithstanding any provision therein for the survival of any provision after the termination thereof, all of the provisions of the Confidentiality Agreements shall terminate at the Closing; provided that no termination of the Confidentiality Agreements shall release a breaching party thereto from any liability for any breach thereof prior to the Closing. After the Closing, the provisions of this Section 8.2 shall survive termination of this Agreement and the LLC Agreement but shall expire, with respect to any Person, on the second anniversary of the last date on which neither such Person nor any of its Affiliates is a Member of the Company.

(g) Schedule 8.2(g) sets forth the Parties' protocol regarding disclosure of Information as part of each Party's investor relations programs. To the extent there is any inconsistency between Schedule 8.2(g) and clauses (c)

through (f) of this Section 8.2, Schedule 8.2(g) will control.

Section 8.3 Non-Competition; Non-Solicit.

(a) Except as the other Party may expressly agree with respect to any particular transaction or class of transactions by prior written consent as provided herein, each Party agrees that it will not, and will cause each of its Affiliates not to, directly or indirectly (including by means of a management, advisory, operating, consulting or similar agreement or arrangement or by record or beneficial ownership in any capacity of equity interests in any Person), at any time prior to the termination of this Agreement, develop, acquire or hold an equity interest in any Person directly or indirectly engaged in, or otherwise directly or indirectly engage in, the Business anywhere in North America, Central America or South America (but excluding Canada and Mexico) (such geographic area, the "Territory"), except through the Company Entities in accordance with the Transaction Documents.

(b) Notwithstanding the foregoing:

(i) Each Party and its Affiliates shall be entitled to acquire less than 2% of the voting stock or 5% of the capital stock or other equity interests of any Person engaged directly or indirectly in the Business in the Territory; provided that such acquisition is and remains an investment solely for investment purposes, and such Party and its Affiliates do not participate in the day-to-day management of such Person; provided, however, that notwithstanding anything to the contrary contained in this Section 8.3, each Party and its Affiliates: (A) shall be entitled to

conduct principal investing and merchant banking activities in the ordinary course of business and, in connection therewith, acquire, directly or indirectly, capital stock and other equity interests (including but not limited to options, warrants, and other rights to acquire capital stock and other equity interests) in any Person, including without limitation a Person engaged, directly or indirectly, in the Business in the Territory, without regard to the limitations on the amount of capital stock or other equity interests set forth herein, and (B) shall not be required to divest or contribute to the Company any such principal investing or merchant banking investment in any Person engaged, directly or indirectly, in the Business in the Territory.

(ii) Each Party and its Affiliates shall be entitled to provide financial services of the types that are included in the Business, directly or indirectly through Affiliates, through any individual who is a licensed insurance agent, registered investment adviser, certified financial planner or certified public accountant, so long as reasonable steps are taken to ensure that not more than 25% of such individual's gross income in any calendar year will be derived from the Business.

(iii) For the avoidance of doubt, notwithstanding anything in this Section 8.3 to the contrary:

(A) Each Party and its Affiliates shall be entitled to conduct any business of a kind that it is currently conducting so long as it does not constitute the Business and to offer and sell in the Territory through distribution channels owned and operated by such Party or Affiliate or by Third Parties:

(1) shares of and other interests in investment companies and pooled investment vehicles of all kinds, including real estate, commodity and derivatives funds, whether or not registered under the Investment Company Act and the Securities Act, and whether or not such investment companies and pooled investment vehicles are managed by such Party or its Affiliate;

(2) variable annuity contracts, variable life insurance policies and other insurance products, whether or not the interests therein or the funding options offered thereby are registered under the Investment Company Act and the Securities Act and whether or not such funding options are managed by such Party or its Affiliate;

(3) deposit products eligible for FDIC insurance; and

(4) Derivatives and FX Products.

(B) Prudential and its Affiliates shall be entitled to continue to maintain and service accounts of the type constituting Prudential Excluded Assets;

(C) Each Party and its Affiliates shall be entitled:

(1) except as otherwise provided in the Product Agreement, to offer and sell in the Territory, through distribution channels owned and operated by such Party or such Affiliate or by a Third Party, "wrap" services for individuals and other broker-dealers under which such Party or its Affiliate provides a platform and advice for the selection of Third Party investment managers, mutual funds or other investment media;

(2) to engage in equity block-trading, securities-related executive services activities, restricted stock trading, corporate share repurchase programs (including tender offers), 10b5-1 trading programs, bought deals, derivative and hedging activities and program trading;

(3) to act as underwriter, dealer or agent in connection with any offering of securities;

(4) to engage in correspondent securities clearing, payment and settlement activities conducted by Wachovia's Corporate and Investment Banking group, Prudential's corresponding corporate and investment banking group, Wachovia Bank or the Prudential Banks, or in each case by any successor division or entity thereof;

(5) to acquire, directly or indirectly, any voting stock, capital stock or other equity interests (including convertible securities) of any Person in connection with any hedging or other customer or proprietary driven Derivatives and FX Products without regard to any limitations contained in this Agreement, including any limitations in Section 8.3(b)(i);

(6) to enter into referral arrangements with Third Parties relating to the distribution of such Party's and its Affiliates' certificates of deposit and Derivatives and FX Products or Third Party certificates of deposits and Derivatives and FX Products;

(7) to provide prime brokerage services whether to the customers of the Company Entities or other Third Parties;

(8) to produce and distribute research reports regarding issuers and securities;

(9) to enter into and engage in soft dollar arrangements; and

(10) to engage in institutional equity and fixed income trading, sales and dealing activities.

(iv) None of the following activities shall be prohibited by Section 8.3(a): (A) ordinary course investments made through trust departments, institutional custody, managed mutual funds, separate accounts or other Third Party investment sources for the benefit of clients and other customers, (B) assets or securities acquired in the ordinary course of business in satisfaction of debts previously contracted in good faith, (C) bona-fide market-making, proprietary, floor or specialist trading, third market trading, or merger and acquisition advisory or dealer manager activity involving securities (or relating to Derivatives and FX Products) of any Person engaged directly or indirectly in the Business in the Territory, or (D) any other activity conducted in the ordinary course of business which, if conducted in the United States, would not require the Persons conducting such activities to be licensed or registered as a securities broker or dealer;

(v) A Combining Party may acquire or become Affiliated with any other Person that is engaged directly or indirectly in the

Business in the Territory for purposes of Section 8.3(a) and is not otherwise exempted pursuant to clauses (i), (ii), (iii) or (iv) of this Section 8.3(b) (the "Other Combining Person") so long as the portion of the Other Combining Person conducting the Business in the Territory (but excluding any assets, capital stock or equity interests acquired by the Combining Person that are permitted pursuant to Section 8.3(b)) (the "Acquired Retail Brokerage Business") is contributed to the Company as an in-kind capital contribution in accordance with Article 3 of the LLC Agreement on the date of consummation of the Combination Transaction or as soon thereafter as is reasonably practicable (or on such other date as may be provided in Section 3.4 of the LLC Agreement). Notwithstanding the foregoing:

(A) Unless otherwise requested by the Board of Managers of the Company, a Party shall not be permitted to enter into any such Combination Transaction if (1) the consolidated net revenues of the Other Combining Person and any Subsidiaries thereof derived from the Business in the Territory exceed 50% of the Other Combining Person's total consolidated net revenues for the immediately preceding two fiscal years and any interim year-to-date period, and (2) the Acquired Retail Brokerage Business is a Small Retail Broker;

(B) If (1) the Acquired Retail Brokerage Business (other than an Acquired Retail Brokerage Business that is the subject of a Combination Transaction requested by the Board of Managers referred to in clause (A) above) is an Excludible Retail Brokerage Business and the Non-Combining Member has not consented to its contribution to the Company pursuant to Section 8.3(c)(ii) or (2) in response to the receipt of a Put/Call Exercise Notice from the Non-Combining

Party, the Combining Party elects to divest the Acquired Retail Brokerage Business in order to avoid the occurrence of a Put/Call Event, then such Acquired Retail Brokerage Business shall not be contributed to the Company and shall be divested by the Combining Party as promptly as practicable, but in any event within one year following the date of consummation of the Combination Transaction, and during the period prior to such divestiture such Acquired Retail Brokerage Business (x) shall be conducted by the Combining Party only in the ordinary course consistent with past practice and shall not be expanded, and (y) shall not be subject to, or eligible to participate in, any of the arrangements in this Agreement, the Product Agreement or the other Transaction Documents;

(C) If the Affiliated Members of the Non-Combining Party elect to delay the contribution of the Acquired Retail Brokerage Business until the end of the Integration Period pursuant to Section 3.4(c) of the LLC Agreement, the Combining Party and its Affiliates shall not be in violation of this Section 8.3 during the Integration Period but such Acquired Retail Brokerage Business shall not be subject to, or eligible to participate in, any of the arrangements described in this Agreement, the Product Agreement or the other Transaction Documents; and

(D) If Prudential is the Combining Party and Wachovia sends a Put/Call Exercise Notice pursuant to Section 8.3(c) below to which Prudential has not responded by electing within the time period specified below to divest such Acquired Retail Brokerage Business, Prudential shall retain such Acquired Retail Brokerage Business in lieu of contributing it to the Company and shall not be in breach of this Section 8.3 by reason of such action.

(c) With respect to the following Combination Transactions:

(i) Within ten Business Days following the date on which a Combining Party or one of its Affiliates (1) executes and delivers a definitive binding agreement to effect a Combination Transaction that would, upon consummation, either (A) result in an Affiliation with an Acquired Retail Brokerage Business or (B) result in a Change of Control with respect to such Combining Party, or (2) publicly announces the commencement of a tender offer or exchange offer with respect to any such Combination Transaction, the Combining Party shall give written notice of such fact to the Non-Combining Party, and shall notify the Non-Combining Party as to whether the Acquired Retail Brokerage Business is an Excludible Retail Brokerage Business, if such information is known at such time.

(ii) On or prior to the 20th Business Day following receipt

of such notice, the Non-Combining Party may, (x) if the Acquired Retail Brokerage Business is an Excludible Retail Brokerage Business, notify the Combining Party as to whether it will permit such Acquired Retail Brokerage Business to be

contributed to the Company, or (y) if such Combination Transaction (1) is a Large Retail Brokerage Combination or (2) would constitute a Change of Control with respect to the Combining Party, and such Non-Combining Party intends to exercise its put or call rights pursuant to Section 9.3 upon consummation thereof, deliver a Put/Call Exercise Notice to the Combining Party. If the Non-Combining Party fails to take either of the actions set forth in the prior sentence, then the Combining Party shall contribute the Acquired Brokerage Business to the Company on the date of consummation of the related Combination Transaction or as soon thereafter as is reasonably practicable; provided, however, that if subsequent to such 20th Business Day, it is determined that the Acquired Retail Brokerage Business is an Excludible Retail Brokerage Business (which determination the Combining Party shall in all events make at least five Business Days prior to the consummation of such Combination Transaction), the Combining Party shall notify the Non-Combining Party as promptly as practicable of such determination and the Non-Combining Party may make the notification referred to in clause (x) above within a reasonable time after such determination but in any event prior to the applicable consummation date.

(iii) If the Non-Combining Party determines that the Acquired Retail Brokerage Business is an Excludible Retail Brokerage Business, it shall promptly deliver a notice to that effect to the Combining Party and the Combining Party shall not contribute such Acquired Retail Brokerage to the Company without the consent of the Non-Combining Party and the Company.

(iv) If the Non-Combining Party delivers a Put/Call Exercise Notice with respect to a Large Retail Brokerage Combination, the Combining Party shall, within ten Business Days following receipt of such Put/Call Exercise Notice but in any event prior to the applicable consummation date, provide written notice to the Non-Combining Party as to whether the Combining Party (A) accepts the Put/Call Exercise Notice (in which case the Prudential Put or Wachovia Call will be effected in accordance with Section 9.3) or (B) intends to hold the Acquired Retail Brokerage Business for divestiture in accordance with Section 8.3(b)(v)(B). If the Combining Party delivers notice that it intends to divest such Large Retail Broker, the Put/Call Exercise Notice shall be deemed to be withdrawn without any further action by the Non-Combining Party.

(d) Upon delivery of a notice pursuant to Section 8.3(c)(i), each Party shall promptly designate a representative (an "Acquisition Representative") who shall be an individual responsible for overseeing the contribution of the relevant Acquired Retail Brokerage Business (and the valuation process in connection therewith) or the divestiture thereof, to whom all communications on such matter will be directed, and who shall have authority to act on behalf of the Party that appointed him or her. Each Party may replace its Acquisition Representative at any time upon written notice to the other Acquisition Representative. The Acquisition Representatives shall meet as soon as practicable, and in any event not later than five Business Days following delivery of the notice by the Combining Party pursuant to Section 8.3(c)(i). The Acquisition Representatives will meet in good faith to prepare a plan with respect to such acquisition or divestiture. The

Parties, through their Acquisition Representatives, will promptly cause the applicable procedures for determining the Appraised Value to be commenced, shall identify and promptly commence the steps necessary for obtaining all Consents required under applicable Law, and shall prepare all required documentation. The Parties shall take, or cause to be taken, all necessary and appropriate steps to cause the above-referenced plan to be implemented as promptly as practicable.

(e) Prudential agrees that, from the date hereof and until the one year anniversary of the date of any termination of this Agreement with respect to Prudential, it will not, and will cause its Affiliates not to, directly or indirectly, solicit to hire or hire any employees of any Company Entity, or employees of Wachovia or any other Wachovia Entity assigned to assist any Company Entity in the Business with whom Prudential or any of its directors, officers, advisors or other employees have contact in connection with the Business; provided that nothing contained in this Section 8.3 shall prohibit Prudential from hiring any such individual (i)

responding to any advertisement or other general solicitation not targeted at any Company Entity, Wachovia or any of such employees of any Company Entity or Wachovia, or (ii) whose employment with any Company Entity or Wachovia has terminated and such termination was not induced or solicited by Prudential.

(f) If any provision contained in this Section 8.3 shall for any reason be held invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provisions of this Section 8.3, but this Section 8.3 shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein. It is the intention of the Parties that if any of the restrictions or covenants contained herein are held to cover a geographic area or to be for a length of time which is not permitted by applicable Law, or in any way construed to be too broad or to any extent invalid, such provision shall not be construed to be null, void and of no effect, but to the extent such provision would be valid or enforceable under applicable Law, a court of competent jurisdiction shall construe and interpret or reform this Section 8.3 to provide for a covenant having the maximum enforceable geographic area, time period and other provisions (not greater than those contained herein) as shall be valid and enforceable under such applicable Law. This Section 8.3(f) is in furtherance of, and not intended to limit, the application of Section 12.8.

(g) This Section 8.3 shall become effective on the Closing Date, except that Section 8.3(e) is effective as of the date hereof.

Section 8.4 Employee Matters.

(a) Transfers of Personnel.

(i) Identification of Contributed Business Individuals.

(A) Attached hereto are Schedules 8.4(a)(i)-1 and 8.4(a)(i)-2, which consist, respectively, of lists of Wachovia and Prudential, and their respective Subsidiaries' employees and independent contractors (other

than any independent contractor whose assignment is expected to last less than three months) who, as of the date of this Agreement, (I) perform more than 50% of their services for the benefit of the Contributed Businesses (the "Eligible Individuals") and (II) are intended to become employed by (or become an independent contractor of) a Company Entity (or Wachovia, as described in subsection (a)(ii) below) as of the Closing Date. Such lists shall generally be subject to correction and verification by Wachovia and Prudential, respectively, after the date of this Agreement. The names of all individuals listed on Schedule 8.4(a)(i)-1 or 8.4(a)(i)-2 shall be corrected, verified and/or approved as described herein no later than 60 days after the Closing Date (unless otherwise agreed by the Parties) (such schedules, as so corrected, verified and/or approved, together shall be referred to hereinafter as the "Individual Schedules"). Any additions to such lists after the date of this Agreement (including employees hired or transferred to replace terminating employees and newly hired employees or newly hired independent contractors) by any Party shall be subject to the other Party's approval, not to be unreasonably withheld. All such employees and independent contractors of Wachovia and its Subsidiaries set forth on Schedule 8.4(a)(i)-1 from time to time will be the "Wachovia Contributed Business Individuals" and such employees and independent contractors of Prudential and its Subsidiaries set forth on Schedule 8.4(a)(i)-2 from time to time will be the "Prudential Contributed Business Individuals" (Wachovia Contributed Business Individuals and Prudential Contributed Business Individuals, collectively, "Contributed Business Individuals"); provided, however, that any Contributed Business Individual to whom a notice of termination has been given prior to the Closing and all liabilities with respect to such individual shall remain or become the responsibility of Wachovia or Prudential, as the case may be, even if the actual termination of such employee's employment occurs after the Closing; and provided, further, however, that in no event shall any notice regarding the transactions contemplated under this Agreement (or any other Transaction Document) or any offer of employment made by any Company Entity (described in Section 8.4(a)(i)(B) below) constitute a notice of termination for purposes of this Section 8.4(a)(i)(A). On and after the date hereof, Wachovia and Prudential each agree to use their reasonable best efforts to cause each of their Contributed Business Individuals,

respectively, to devote 100% of their time to Contributed Business-related matters.

(B) The Parties intend for there to be continuity of employment with respect to the Contributed Business Employees. Prior to the Closing Date, the Company (or the applicable Company Entity) shall make offers of employment to employees and offers to retain independent contractors who are Prudential Contributed Business Individuals (other than with respect to the Assignable Employees and the Prudential Domestic Subsidiary Individuals), such employment and retention to be effective as of the Closing Date. In addition, effective as of the Closing Date,

Prudential shall, or shall cause its applicable Subsidiary to, assign to the Company all Prudential Employment Agreements that are Prudential Transferred Plans; provided, however, that, with respect to the Prudential Transferees covered by the Missing Employment Agreements, (A) Wachovia shall only be liable for (I) base salary, annual bonus opportunity (if any), and benefits after the Closing Date pursuant to the applicable Company Entity's (or Wachovia's, if applicable) compensation and benefits structure generally in effect from time to time and (II) after the Closing Date, if a Company Entity terminates such Prudential Transferee without cause, any severance payments or benefits that may become payable to such Prudential Transferee pursuant to the applicable Company severance plan (in accordance with Section 8.4(b)(i) of this Agreement); and (B) Prudential (or its Subsidiaries, as applicable) shall be liable for all other payments, obligations, costs and Claims of Prudential Transferees covered by the Missing Employment Agreements (including, without limitation, any guaranteed bonus or loan amounts and any severance payments or benefits that are in excess of any such payments and benefits to which such Prudential Transferee may be entitled under the applicable compensation and benefits structure (including any applicable Company severance plan)). Effective as of the Closing Date, all (I) Prudential Contributed Business Individuals who either have been assigned to, or have accepted an offer from a Company Entity (which shall include the Prudential Domestic Subsidiary Individuals), and (II) Wachovia Contributed Business Individuals shall become employees (or independent contractors, as the case may be) of a Company Entity, except that some Wachovia Contributed Business Individuals shall remain with Wachovia and some Prudential Contributed Business Individuals shall subsequently be transferred to Wachovia, both as described in subsection (a)(ii) below. For purposes of this Agreement, all Wachovia Contributed Business Individuals who, as of the Closing Date, become employed by (or become independent contractors of, as the case may be) a Company Entity (or remain employed by Wachovia, as applicable) are hereinafter referred to as "Wachovia Transferees" and all Prudential Contributed Business Individuals who, as of the Closing Date, become employed by (or become independent contractors of) a Company Entity (or Wachovia, as described in subsection (a)(ii) below), are hereinafter referred to as "Prudential Transferees" (Wachovia Transferees and Prudential Transferees, collectively, the "Company Transferred Individuals"). In connection with the foregoing, Prudential shall, and shall cause its Subsidiaries to, facilitate the provision of the offers of employment and retention described above, and shall use their commercially reasonable efforts to ensure that all Prudential Contributed Business Individuals become Prudential Transferees. Also, Prudential shall, and shall cause its Subsidiaries to, cooperate with all reasonable requests made by Wachovia in connection with the foregoing.

(C) With respect to any Prudential Transferee who becomes employed by a Company Entity (or by Wachovia as described in Section 8.4(a)(ii) below), Prudential and Wachovia shall, and shall cause their respective Affiliates to, to the extent feasible or practicable, (I) treat such Company Entity or Wachovia, as the case may be, as a "successor employer" and Prudential or its Subsidiary as a "predecessor," within the meaning of Section 3121(a)(1) and 3306(b)(1) of the Code, to the extent appropriate, for purposes of Taxes imposed under the United States Federal Insurance Contributions Act or the United States Federal

Unemployment Tax Act, each as amended, and (ii) cooperate with each other to avoid, to the extent possible, the filing of more than one IRS Form W-2 with respect to each such Prudential Transferee for the calendar year within which the Closing Date occurs.

(ii) Support and Compliance Individuals. Those Company Transferred Individuals whose principal duties are in the areas of human resources, legal, technology, finance or risk management shall immediately after the Closing, in the case of any such Wachovia Transferees, remain employed by Wachovia, and in the case of any such Prudential Transferees, be transferred to Wachovia. All Contributed Business Individuals described in this Section 8.4(a)(ii) shall be so designated on the Individual Schedules by placing an asterisk after such employees' names.

(iii) Treatment of Wachovia and Prudential Excluded Individuals.

(A) Prior to the Closing Date, Wachovia shall, or shall cause its Subsidiaries to, take all actions necessary to cause all employees and independent contractors of its Subsidiaries that are not set forth on the Individual Schedules to be terminated or transferred to (or retained by, as the case may be) Wachovia or its Subsidiaries, as applicable (other than the Contributed Subsidiaries), (such individuals, the "Wachovia Excluded Individuals"). In addition, prior to the Closing Date, Prudential shall, or shall cause its Subsidiaries to, cause all employees and independent contractors of Prudential and its Subsidiaries, as applicable, who are not set forth on the Individual Schedules (the "Prudential Excluded Individuals") to cease to participate in any Prudential Contributed Business Plan that any Company Entity will be sponsoring or maintaining on and after the Closing Date.

(B) Prudential shall be solely responsible for any costs, liabilities or Claims, however arising, related to the Prudential Excluded Individuals, and Wachovia shall be solely responsible for any costs or liabilities, however arising, relating to the Wachovia Excluded Individuals.

(iv) No Right to Continued Employment. Nothing contained in this Agreement shall confer on any Company Transferred Individual any right, on or

after the Closing Date, to continued employment or to change his or her status as an employee at will.

(b) Benefit Plans for Company Transferred Individuals -- General Provisions.

(i) Continuation of Benefit Plans During Transition Period.

(A) Except as otherwise set forth in this Agreement, for the period commencing on the Closing Date and ending December 31, 2003 (the "Transition Period"), Wachovia and Prudential shall, or shall cause their respective Subsidiaries (including, with respect to Wachovia, any Company Entity) to, continue to provide their respective Company Transferred Individuals with the same Benefit Plans in which they participated immediately prior to the Closing Date; provided, however, that individuals who are newly hired (or re-hired) by a Company Entity after the Closing Date shall be covered under the Wachovia Contributed Business Plans or the Prudential Contributed Business Plans depending upon the location of such employee's workplace, as reasonably determined by the Company; and provided, further, however, that all Company Transferred Individuals shall be covered by a relocation plan that provides benefits substantially similar to the applicable Wachovia Contributed Business Plan that is a relocation plan. The Company Entities shall bear, and/or reimburse the applicable Party for, the cost of the benefits provided under the applicable Benefit Plan.

(B) Subject to and consistent with Section 8.4(b)(i)(A) above, during the Transition Period, Wachovia and Prudential shall, or shall cause their respective Subsidiaries (including, with respect to Wachovia, any Company Entity) to, continue to provide their respective Company Transferred Individuals with welfare benefits (including, without

limitation the levels of benefits) that are substantially similar to the benefits such employees were entitled to receive under the Wachovia Contributed Business Plans or the Prudential Contributed Business Plans, as applicable, immediately prior to the Closing Date; provided, however, that nothing contained in this Agreement shall limit Wachovia, Prudential, their respective Subsidiaries or any Company Entity from amending or terminating any Benefit Plans at any time on and after the Closing Date.

(C) From the Closing Date through the end of the Transition Period, all Company Transferred Individuals shall participate in one or more Company severance plans (to be administered by the Company) that provide a level of severance payments and benefits ("Severance Benefit Level") substantially similar to the Severance Benefit Level provided under the applicable Wachovia Contributed Business Plans that are severance plans; provided, however, that for the period commencing on the Closing Date and ending on December 31, 2004, all Prudential Transferees (other than any Prudential Transferees who do not perform

services in the United States) shall participate in a Company severance plan pursuant to which they will be entitled, in the event of a qualifying termination (as determined under such Company severance plan), to the Severance Benefit Level provided under the applicable Prudential Securities severance plan immediately prior to the Closing Date (except that any rights to health benefits provided to such Prudential Transferees under COBRA shall be provided under such Company health plans as may be in effect from time to time); provided, further, however, that Prudential shall be responsible and liable for all severance payments and benefits that are in excess of the Severance Benefit Level to which such Prudential Transferees would be entitled if such Prudential Transferees were Wachovia Transferees, as well as for all costs of administration that are in excess of the administration costs that the Company would incur if such Prudential Transferees were entitled to receive the same Severance Benefit Level as Wachovia Transferees.

(ii) Compensation Arrangements and Benefit Plans After Transition Period. Except as otherwise set forth in this Agreement, after the Transition Period, all Company Transferred Individuals (whether transferred to any Company Entity or Wachovia) shall be compensated pursuant to an appropriate set or sets of compensation arrangements and benefit plans, which may consist, in whole or in part, of Wachovia Contributed Business Plans or Benefit Plans newly established or maintained by the Company or its Subsidiaries.

(iii) Service Credit. Periods of employment with Wachovia, the Wachovia Contributed Subsidiaries and their Subsidiaries, as applicable (with respect to any Wachovia Transferees), and periods of employment with Prudential and its Subsidiaries, as applicable (with respect to any Prudential Transferees), in each case for which credit was given under the Wachovia Contributed Business Plans or the Prudential Contributed Business Plans, respectively, shall be taken into account under the Benefit Plans for all purposes (including, without limitation, eligibility, vesting, and benefit level, but not for purposes of benefit accruals under any defined benefit pension plans or any other plans) to the same extent they were taken into account under the applicable Contributed Business Plan; provided, however, that in no event shall any Company Transferred Individuals be entitled to any credit for service to the extent that it would result in a duplication of benefits with respect to the same period of service.

(iv) Non-Termination of Employment. Except as otherwise expressly provided herein, no provision of this Agreement shall be construed to create any right, or accelerate entitlement, to any compensation or benefit whatsoever on the part of any Eligible Individual, Wachovia or Prudential Contributed Business Individual, Company Transferred Individual or any other future, present, or former employee or independent contractor of the Contributed Businesses under any Benefit Plan or otherwise. Prudential shall be solely responsible for all costs or liabilities, however arising, related to any payments or benefits (or the acceleration or increase in the amounts or timing of the payment or provision

thereof) that become due under any Prudential Contributed Business Plans that are employment or severance agreements (including, without limitation, any guarantees), resulting from the announcement or consummation of the transactions contemplated under this Agreement and the other Transaction Documents, either alone or in combination with a subsequent event; provided, however, that Prudential shall not be liable for, and the applicable Company Entity shall be liable for, any such payments and benefits that become due to any Prudential Transferee under a Prudential Employment Agreement (other than a Missing Employment Agreement) or applicable severance agreement as a result of the applicable Company Entity involuntarily terminating (other than with respect to any constructive termination) such Prudential Transferee's employment after the Closing Date.

(v) Administrative Costs. If, on or after the Closing Date, Wachovia or Prudential provides administrative services with respect to any Benefit Plan sponsored by a Company Entity, or with regard to which the Company Entity is responsible to pay for administrative services, the Company Entity shall pay Wachovia or Prudential, as the case may be, for such services, pursuant to, where applicable (and to the extent provided under), the Wachovia/Company Master Agreement or Prudential/Company Interim Agreement, as applicable. If a Company Entity provides administrative services with respect to any Benefit Plan sponsored by Wachovia or Prudential, or with regard to which Wachovia or Prudential is responsible to pay for administrative services, Wachovia or Prudential, as the case may be, shall pay a Company Entity for such services pursuant to the Company/Prudential Interim Agreement.

(c) Welfare Plans.

(i) Welfare Benefit Plans. Effective as of the Closing Date and through the Transition Period, the Company Entities shall assume sponsorship of and maintain those Prudential Contributed Business Plans that (A) were sponsored by Prudential Securities or any of its Subsidiaries immediately prior to the Closing Date and (B) are welfare benefit plans (including, without limitation, health, life, retiree medical, long-term disability and short-term disability plans and programs) identified in Schedule 4.2(m)(i) as plans that are to be sponsored and maintained after the Closing Date by a Company Entity for the benefit of the Prudential Transferred Individuals and newly hired employees who, pursuant to Section 8.4(b)(i), are to be covered by Prudential Contributed Business Plans. Notwithstanding the foregoing, in accordance with and pursuant to the terms of the Prudential/Company Interim Agreement, for so long as the Company Entities maintain such Benefit Plans, Prudential shall, or shall cause its appropriate Affiliate to, provide such administrative services with respect to all aspects of providing any benefits (including notices, payments and the provision of benefits) as may be necessary under any such plans to any Company Transferred Individual or other individual who is or becomes entitled to receive such benefits.

(ii) Prudential Severance Liabilities. Except as provided in Section 8.4(c)(iii), Prudential shall be solely responsible for all severance liabilities and obligations (including any obligation to pay all or any portion of any annual incentive compensation awards or bonuses) related to any severance plan of Prudential or its Subsidiaries, regardless of whether such liability arose before, on, or after the Closing Date.

(iii) Treatment of Certain Prudential Individuals. The Parties hereby agree that with respect to those Eligible Individuals employed by Prudential or its Subsidiaries (other than Prudential Contributed Business Individuals) whose employment is or will be terminated as a result of the transactions contemplated by this Agreement (a list of which is set forth on Schedule 8.4(c)(iii)), the Company or its Subsidiaries shall reimburse Prudential for severance and retention liabilities (inclusive of any employer-paid taxes) that are the responsibility of Prudential and its Subsidiaries, incurred after the Closing Date, in an aggregate amount not to exceed the amount set forth on Schedule 1.1(y). The list set forth on Schedule 8.4(c)(iii) shall generally be subject to correction and verification by Prudential and Wachovia within 60 days after the date of this Agreement; provided, however, that any additions to such lists after the date of this Agreement by Prudential shall be subject to Wachovia's approval, which shall not be unreasonably withheld.

(d) Defined Benefit Plans.

(i) Qualified Defined Benefit Pension Plans. Effective as of the Closing Date, Prudential shall (A) cause all Prudential Transferees to become fully vested in their unvested accrued benefits

under the Prudential Merged Retirement Plan (the "Prudential Pension Plan"), (B) permit all Prudential Transferees to continue, during the Transition Period, to receive (and be fully vested in) additional accruals under the Prudential Pension Plan as if such Prudential Transferees were employed by Prudential, and (C) retain all liability and responsibility for all benefits and obligations described in clauses (A) and (B) above and for all Claims arising in respect of the Prudential Pension Plan. Prudential may charge the Company Entities for the cost of the additional accruals (other than that portion of such accruals that relates to the additional compensation to be reported on the 2003 Form W-2s of the applicable Prudential Transferees as a result of the acceleration of payments under the Prudential Securities 2002 Performance Unit Plan (the "PUP"), the Prudential Securities 2001 Incentive Share Program (the "ISP") and any other Nonqualified Plans) occurring during the Transition Period pursuant to this Section 8.4(d)(i), such cost to be determined in good faith by agreement of Prudential's and Wachovia's actuaries. No assets of the Prudential Pension Plan shall be transferred to Wachovia, its Affiliates or any Company Entity or any plan maintained by them, and neither Prudential, its Subsidiaries nor any Company Entity shall have any liability and responsibility for any benefits, obligations or Claims arising in respect of the Wachovia Pension Plan and Trust (the "Wachovia Pension Plan") through the end of the Transition Period; provided, however, that Wachovia may

charge the Company Entities for the cost of any benefits provided to the Company Transferred Employees under the Wachovia Pension Plan.

(ii) Supplemental Retirement Plans. Effective as of the Closing Date, Prudential Securities shall, or shall cause one of its Affiliates to, (A) retain sponsorship of, and maintain the Prudential Securities General Partners Pension Plan and the Prudential Securities Supplemental Retirement Plan for Executives (the "SERP") for the benefit of those Prudential Transferees who participated in such plans immediately prior to the Closing Date, (B) fully vest all such Prudential Transferees in their accrued benefits under the SERP, (C) allow such Prudential Transferees to continue to accrue benefits under the SERP during the Transition Period while employed by the Company (or Wachovia, as applicable), as if such Prudential Transferees had continued to participate in such plan as active employees of Prudential Securities, (D) cause the SERP to give any such Prudential Transferee whose employment is involuntarily terminated without cause, credit for their increase in age while employed by, and periods of service with, a Company Entity (or Wachovia, as applicable) for purposes of such Prudential Transferee's eligibility for early retirement and disability subsidies, and (E) assume all liabilities and obligations with respect to the benefits such Prudential Transferees have accrued prior to the Closing Date or may accrue, on and after the Closing Date, under the SERP, and all Claims arising under the SERP. After the end of the Transition Period, Prudential may either terminate the SERP and pay out all benefits accrued thereunder immediately, pursuant to the terms of the SERP, or end any further accruals under the SERP and pay out such frozen benefits from time to time in accordance with the terms of the SERP. In the event that Prudential terminates the SERP, Prudential's and Wachovia's actuaries shall determine and agree in good faith as to the appropriate valuation of the early retirement and disability subsidies in determining the benefit of the Prudential Transferees who participated in the SERP consistently with the way such subsidy would be valued in the event of the termination of a tax-qualified defined benefit plan. Prudential may charge the Company Entities for the cost of the additional accruals occurring during the Transition Period pursuant to this Section 8.4(d)(ii) (other than that portion of such accruals that relates to the additional compensation to be reported on the 2003 Form W-2s of the applicable Prudential Transferees as a result of the acceleration of payments under the PUP, the ISP and any other Nonqualified Plans), such cost to be determined in good faith by agreement of Prudential's and Wachovia's actuaries.

(e) Qualified Defined Contribution Plan.

(i) Spinoff of Prudential Excluded Individual Account Balances. Prior to the Closing Date, Prudential (or Prudential Securities, as the case may be) shall cause the trustee of the Prudential Securities 401(k) Plan (the "PS Savings Plan") (I) to segregate, in accordance with the spinoff provisions of Section 414(l) of the Code, assets of the Company Savings Plan equal to the full account balances of the participants who are Prudential Excluded Individuals and (II) to transfer such assets and all liabilities relating to the Prudential Excluded

Individuals under the PS Savings Plan to the trustee of a qualified defined contribution plan sponsored by Prudential or one of its Subsidiaries (the "Prudential Savings Plan"). Such assets shall be transferred in cash or in kind from each investment fund of the PS Savings Plan in the same proportion as the interest of such participants in each such investment fund bears to the total assets of such fund, including notes representing loans to such participants, all based on the value of such participants' account balances on the day before the transfer of such full account balances described herein. Prudential Securities and Prudential shall make, or cause to be made, all required filings and submissions to appropriate Governmental Authorities and all required amendments to the PS Savings Plan and Prudential Savings Plan and related trust agreements necessary to provide for the transfer of assets and liabilities described herein.

(ii) Effect of Closing; Treatment of Prudential Common Stock Fund. Effective as of the Closing Date:

(A) The Company shall assume sponsorship of the PS Savings Plan;

(B) The Prudential Common Stock Fund (an investment option under the PS Savings Plan) shall cease to be an investment option into which any additional amounts may be placed, whether by contribution or transfer; and

(C) All participants in the PS Savings Plan shall be required to transfer all amounts currently invested in the Prudential Common Stock Fund under the PS Savings Plan into other investment options by no later than the end of the Transition Period.

In addition, during the Transition Period, Prudential shall, or shall cause its appropriate Affiliate to, provide administrative and recordkeeping services with respect to all aspects of the PS Savings Plan. Notwithstanding anything set forth above, Prudential shall assume all liabilities arising out of or in connection with the Prudential Common Stock Fund of the PS Savings Plan.

(f) Compensation Arrangements.

(i) Prudential MasterShare Programs.

(A) With respect to the various equity-linked compensation plans set forth on Schedule 8.4(f)(i) (the "MasterShare Programs"), effective as of the Closing Date: (I) the Company shall assume sponsorship of the MasterShare Programs, subject to subsection (B) below; (II) no further amounts shall be invested in Prudential Common Stock under the MasterShare Programs; and (III) any participants in such programs who become employed by Wachovia or the Company Entities pursuant to Section 8.4(a) above will not be deemed, for purposes of the MasterShare Programs, to have an involuntary termination of employment

unless and until such individuals are actually terminated from employment by Wachovia, its Affiliates and the Company Entities.

(B) During the Transition Period, the Company shall continue to accept deferrals (and transfer the equity purchased with such deferrals to the participants) under the MasterShare Programs and to operate the MasterShare Programs in accordance with their terms for the benefit of Prudential Transferees. Prudential shall provide any administrative and recordkeeping services necessary to operate the MasterShare Programs through the end of the Transition Period pursuant to the terms of the Prudential/Company Interim Agreement, and shall be responsible for all liabilities and Claims relating to the MasterShare Programs, regardless of how or when they arise, other than (x) the Company's obligation to make equity purchases under the MasterShare Programs in the ordinary course in accordance with the terms of the MasterShare Programs and (y) the Company's liabilities assumed under clause (III) below. In connection with the foregoing, the Company shall (I) only continue to sponsor and maintain the MasterShare Programs through the end of the Transition Period and until such time in 2004 as the awards have been provided thereunder to the plans' participants in respect of 2003 (such

time, the "End Date"), (II) beginning on the End Date, provide all administrative and recordkeeping services necessary to operate the MasterShare Programs and (III) be liable for any Claims in respect of such administrative and recordkeeping services with respect to the MasterShare Programs performed after the End Date.

(ii) Other Prudential Nonqualified Plans; Grantor Trust. Prudential Securities is the grantor of a trust (the "Trust") established pursuant to the Trust Agreement dated as of September 22, 1998 by and between Prudential Securities, its successors and assigns, and U.S. Trust Company of California, as amended (the "Trust Agreement"), which Trust is intended to fund certain deferred compensation and incentive bonus plans (known as the "Plans" under the Trust Agreement, hereinafter referred to as the "Nonqualified Plans") in the event Prudential Securities incurs a "Change of Control" (as defined in the Trust Agreement). The Nonqualified Plans are listed on Appendix A attached to an amendment to the Trust Agreement dated February 4, 2003 (as set forth on Schedule 8.4(f)(ii)), which list Prudential hereby represents includes all non-qualified deferred compensation plans covering Prudential Transferees, other than the MasterShare Programs. In connection with the foregoing:

(A) Prior to the Closing Date, Prudential shall, or shall cause Prudential Securities or another Affiliate or Subsidiary to, make a contribution to the Trust in an amount up to the amount accrued on the Final Closing Balance Sheet of the Prudential Contributed Business;

(B) Prudential Securities shall (I) retain the sponsorship of the Trust and the Nonqualified Plans, and (II) retain all obligations of

Prudential Securities under the Trust Agreement. In addition, Prudential shall amend the Prudential Retirement Accumulation Plan (the "RAP") solely to eliminate the requirement that a participant must be granted a minimum of five awards as a condition of eligibility for benefits under the RAP, such amendment to be effective as of the Closing; and

(C) On and after Closing Date: (I) Prudential shall, or shall cause Prudential Securities or another Affiliate to, administer the Nonqualified Plans in accordance with their terms, and, except as set forth below, be liable for all amounts payable under, and all liabilities related to, the Nonqualified Plans, Trust or the Trust Agreement; (II) Prudential shall, or shall cause Prudential Securities or another Affiliate to, credit ongoing service with a Company Entity (or Wachovia, as applicable) of those Prudential Transferees who participated in the Nonqualified Plans immediately prior to the Closing Date for purposes of continued vesting and for purposes of determining whether a substantial risk of forfeiture has lapsed with respect to the Nonqualified Plans, for so long as such Prudential Transferees remain employed by a Company Entity (or Wachovia, as applicable); (III) Prudential shall continue to credit awards under the RAP and to accept deferrals under the Prudential 2003 Deferred Compensation Plan (the "DCP") for such Prudential Transferees in respect of the Transition Period; (IV) Prudential will not, and will cause Prudential Securities or another Affiliate not to, amend the Nonqualified Plans in any way so as to reduce the benefit amounts or credits of such Prudential Transferees accrued through the date of such amendment, without the written consent of the Company (which consent shall not be unreasonably withheld); (V) as soon as practicable, Prudential shall, or shall cause Prudential Securities or another Affiliate to, terminate and distribute cash under the ISP to participants thereunder equal to the value of their "Incentive Shares", which shall be valued at not less than their "Initial Value Per Share" (as defined in the ISP); (VI) as soon as practicable, Prudential shall, or shall cause Prudential Securities or another Affiliate to, terminate and distribute cash under the PUP to participants thereunder equal to the value of their "Performance Units", which shall be valued at not less than their "Initial Value Per Unit" (as defined in the PUP), and (VII) neither Wachovia nor any Company Entity shall have any liability, obligation or responsibility with respect to the Nonqualified Plans, the Trust or the Trust Agreement, except as determined pursuant to the next succeeding sentence. In connection with the foregoing, Prudential may charge the Company Entities for the costs of the additional accruals and deferrals under the

Nonqualified Plans, where applicable, during the Transition Period, to be determined as follows: (x) the cost of additional accruals under the RAP shall be determined in good faith by agreement of Prudential's and Wachovia's actuaries, (y) the cost in respect of the DCP shall be the amount of the participant deferrals from the Closing Date through the end of the Transition Period and (z) the cost of additional accruals under any other applicable Nonqualified Plan during

the Transition Period shall be determined in good faith by agreement of Wachovia's and Prudential's actuaries, subject to the final approval of such costs by the Chief Executive Officer of the Company. Prudential further agrees, effective upon Closing, to amend (or cause Prudential Securities or another Affiliate to amend) each of the Nonqualified Plans that is denominated a "Deferred Compensation Plan" to provide that the "PSI Base Loan Rate" referenced therein shall be changed to the base loan rate used by the Company to set the interest rate which is charged to Company customers with margin debt balances (subject to the same minimum and maximum rates as currently provided under such plans). Thereafter, Prudential agrees to either (a) preserve the new base loan rate provisions of each such Deferred Compensation Plan or (b) upon the merger of such Deferred Compensation Plans with any other deferred compensation plans sponsored by Prudential, to substitute such interests rate with an interest or crediting rate offered under such other deferred compensation plans, which rate is used for substantially all of the Prudential active employees who participate in such plans (again subject to the same minimum and maximum rates as currently provided for under each such Deferred Compensation Plan).

(iii) Wachovia Nonqualified Plans. Wachovia shall retain all liability and responsibility for any benefits, obligations or Claims arising in respect of the Wachovia nonqualified plans through the end of the Transition Period, and neither Prudential, its Subsidiaries nor any Company Entity shall have any liability and responsibility for the Wachovia nonqualified plans through the end of the Transition Period; provided, however, that Wachovia may charge the Company Entities for the cost of any benefits provided to the Company Transferred Individuals under any such plans.

(iv) Prudential Equity Awards. Schedule 8.4(f)(iv) attached hereto sets forth, for each Prudential Transferee, the amounts, date of grant, vesting schedule, strike price and term of any option, restricted stock or other equity grant made to such Prudential Transferee prior to the Closing Date (the "Prudential Equity Awards"). Each Prudential Equity Award shall be the responsibility of, and administered by, Prudential in accordance with its terms; provided that with respect to those stock option grants made to certain Prudential Transferees pursuant to the Prudential Stock Option Plan (identified on Schedule 8.4(f)(iv) as the "Associate Stock Option Grants") (the "Associate Options"), the Company shall establish and maintain a cash retention program, pursuant to which each Prudential Transferee who holds Associate Options as of the date hereof shall receive an amount in cash in respect of his or her Associate Options (which amount shall be calculated by multiplying the amount set forth on Schedule 1.1(y) by the number of shares of Prudential Common Stock subject to such Associate Options that are, as of the date hereof, unexercisable (such amount, the "Option Payment"); provided, however, in the event that the Closing Date occurs after an additional tranche of Associate Options becomes exercisable in 2003 (in accordance with the terms of the Associate Options), the Company shall equitably

adjust the amount of the Option Payment, based on the same methodologies used to initially determine the per share payment amount. Pursuant to this program, the Company shall pay to each applicable Prudential Transferee his or her Option Payment in one cash lump sum payment on the earlier to occur of (I) November 1, 2004 (so long as such Prudential Transferee continues to be employed by a Company Entity (or Wachovia, as applicable) through October 31, 2004) or (II) if, prior to November 1, 2004, such Prudential Transferee terminates employment as a result of his or her death, long-term disability or under circumstances that would give rise to a payment of severance, as soon as practicable after the date of such termination of employment. In connection with the foregoing, Prudential shall promptly reimburse the Company for all such Option Payments (plus all employer-paid taxes thereon) paid by the Company, and shall otherwise be responsible and liable for all Option Payments and all Claims

arising in respect of the Associate Options.

(v) Short-Term Bonus Plans. With respect to any Benefit Plans that are short-term incentive compensation plans (specifically, item H-16 on Schedule 4.1(m)(i)(A) and item 6 on Schedule 4.2(m)(i)(A)) (collectively, the "Annual Bonus Plans"), Wachovia and Prudential shall each cause there to be appropriately accrued on each of the Final Closing Balance Sheets of the Wachovia Contributed Business and the Prudential Contributed Business, respectively, the applicable amount of short-term incentive compensation liabilities in respect of the Wachovia Transferees and Prudential Transferees, respectively, under such Annual Bonus Plans for the period beginning January 1, 2003 and ending on the Closing Date, based on the amounts paid or accrued under such respective plans for 2002. The Company Entities shall pay annual bonus amounts to such Company Transferred Individuals for 2003 as the Company shall determine in its discretion. The aggregate annual bonuses paid to the Wachovia Transferees and the Prudential Transferees, respectively, shall not be less than the respective amounts accrued for the period beginning January 1, 2003 and ending on the Closing Date pursuant to this Section 8.4(f)(v); provided, however, that any such requirement shall be equitably reduced to reflect terminations or transfers of employment occurring among the Company Transferred Individuals and shall not apply to the extent that the Chief Executive Officer of the Company, in good faith, determines that such level of bonus payment is inappropriate or unwarranted due to unforeseen adverse market or other developments. In addition, Prudential shall provide such administrative and record keeping services as may be reasonably requested by Wachovia or the Company in connection with the continuation of the Prudential Annual Bonus Plans through the completion of the systems conversion and harmonization of the Financial Advisor Branch Managers and Other Field Commissioned Pay Programs (such service costs to be borne by the Company Entities in accordance with the Company/Prudential Interim Agreement).

(vi) Retention Awards. The applicable Company Entity shall make retention awards (inclusive of employer-paid taxes thereon) to Company Transferred Individuals, in an aggregate amount of not less or more than the

amounts set forth on Schedule 1.1(y), under such terms as shall be determined in good faith by the proposed Chief Executive Officer of the Company after consultation with Wachovia and Prudential, in order to provide such employees with appropriate retention incentives; provided, however, that a portion of such retention awards shall be dedicated to the grant of incremental awards to Prudential Transferees whose benefits or compensation awards (other than any Associate Options) are reduced or forfeited as a result of the transactions contemplated in this Agreement. Notwithstanding the foregoing, the aggregate retention award value set forth above shall be equitably reduced to reflect terminations or transfers of employment occurring among the Company Transferred Individuals in the good faith discretion of the Chief Executive Officer of the Company.

(vii) Non-U.S. Individuals. With respect to any Company Transferred Individuals who do not perform services in the United States, all such individuals shall also continue to be employees (or independent contractors, as applicable) of their respective Contributed Subsidiary employers, notwithstanding the transfer of such Contributed Businesses to the Company as of the Closing Date, and shall (A) during the Transition Period, generally be provided with the same Benefit Plans in which they participated immediately prior to the Closing Date and with benefits (including, without limitation the levels of benefits) that are substantially similar to the benefits such individuals were entitled to receive immediately prior to the Closing Date; provided, however, that any such Company Transferred Individuals who are newly hired (or re-hired) by a Company Entity after the Closing Date shall be covered under the Wachovia Contributed Business Plans or the Prudential Contributed Business Plans depending upon the location of such individual's workplace, as reasonably determined by the Company, to the extent permitted by applicable Law; and (B) after the Transition Period, shall be provided such compensation arrangements and benefit plans in accordance with Section 8.4(b)(ii) above, to the extent permitted by applicable Law. Notwithstanding the foregoing, Prudential shall retain all liabilities related to any plans, programs, agreements or arrangements that meet the definition of "Foreign Plan", as defined in this Agreement, but which are not set forth on Schedule 4.2(m)(iv).

(viii) Non-Exempt Employees. Wachovia shall retain all liabilities and responsibility with respect to any Claims arising out of events or circumstances occurring on or prior to the Closing Date

that any Wachovia Transferees are, or should be treated as, non-exempt employees (within the meaning of the Fair Labor Standard Act and any state statutes, if applicable) and Prudential shall retain all liability and responsibility with respect to any Claims arising out of events or circumstances occurring on or prior to the Closing Date that any Prudential Transferees are, or should be treated as, non-exempt employees (within the meaning of the Fair Labor Standard Act, and any state statutes, if applicable).

Section 8.5 Certain Contributed Businesses. To the extent that any portion of the activities of the Prudential Contributed Business consist of activities, other than the Business, that are conducted by Wachovia's Corporate and Investment Banking group on the date of this

Agreement, such portion of such activities shall, in the sole discretion of Wachovia, be (i) permitted to continue to operate in the Company, (ii) transferred to Wachovia's Corporate and Investment Banking group or (iii) discontinued, in any such case on terms and conditions as may be determined by Wachovia in its sole discretion. For purposes of this Section 8.5, the term "Business" shall not include any securities underwriting activities or any institutional sales, trading or dealing activities.

Section 8.6 Further Assurances. Following the Closing Date, each Party shall, and shall cause each of its Subsidiaries to, from time to time, execute and deliver such additional instruments, documents, conveyances or assurances and take such other actions as shall be necessary, or otherwise reasonably be requested by the Company or the other Party (including, without limitation, sharing all reasonable participant information necessary for, and cooperating with each other in good faith in connection with, the administration and integration of the Benefit Plans and any Benefit Plan-related services), to confirm and assure the rights and obligations provided for in this Article 8 (including, without limitation, adhering to, and using commercially reasonable best efforts to cause authorized employees, agents, administrators, service providers and vendors to adhere to, all Laws and agreements relating to confidentiality with respect to the subjects of Section 8.4) and render effective the consummation of the transactions contemplated by this Article 8, or otherwise to carry out the intent and purposes of this Article 8. For purposes of this Article 8, a Party shall not be obligated to cause Affiliates that it does not control to comply with this Article 8, but shall be obligated to use its best efforts to cause such Affiliates to comply with this Article 8.

Section 8.7 Hedge Fund Distribution. The Parties shall negotiate in good faith to enter into mutually satisfactory arrangements with respect to the distribution of hedge funds, hedge funds of funds and managed futures funds constituting part of Prudential's alternative investments strategies business with a view to substantially preserving the economic and other terms of those arrangements for the Prudential Contributed Business and the Prudential Excluded Businesses as they exist on the date of this Agreement.

ARTICLE 9

CERTAIN COVENANTS AND AGREEMENTS REGARDING MEMBERSHIP INTERESTS

Section 9.1 Restrictions on Transfer; Permitted Transferees.

(a) Any Transfer of an Interest shall be null and void ab initio unless expressly permitted by this Section 9.1 and consummated in accordance with the terms of this Agreement and the LLC Agreement.

(b) Each Wachovia Member shall be permitted to Transfer any or all of its Interests to a Third Party on and after the fifth anniversary of the Closing Date as long as it complies with the provisions of Section 9.2.

(c) Each Prudential Member shall be permitted to Transfer any of its Interests to a Third Party at any time only as permitted by Section 9.2(d).

(d) Subject to Section 9.1(e), none of the restrictions contained in this Section 9.1 or Section 9.2 with respect to any Transfer or proposed Transfer shall apply to any Transfer by any Wachovia Member to Wachovia or any Wholly-Owned Subsidiary of Wachovia (collectively, a "Wachovia Permitted Transferee") or by any Prudential Member to Prudential or any Wholly-Owned Subsidiary of Prudential (collectively, a "Prudential Permitted Transferee").

(e) Prior to any Transfer of any Interest to a Member's Permitted Transferee (including a Transfer of Interests from a Member's Permitted Transferee to one or more of such Member's other Permitted Transferees pursuant to Section 9.1(d)), and as a condition thereto, the applicable

Party agrees (x) to cause such Permitted Transferee to agree in writing (for the benefit of the transferor and each other Party and Member bound by any provisions of this Agreement) to be bound by the terms and conditions of Article 8 (other than Section 8.4) and Articles 9, 10, 11 and 12 of this Agreement and to execute and deliver a counterpart to the LLC Agreement and (y) that the ultimate parent of such Transferring Member shall remain directly liable for the performance of all obligations, including those of such Permitted Transferee of such Party, under this Agreement and the LLC Agreement.

(f) Each Party agrees not to cause or permit any Affiliate of such Party (including but not limited to any of such Party's Initial Members, Designated Combining Members (as defined in the LLC Agreement), Designated Non-Combining Members (as defined in the LLC Agreement) or other Permitted Transferees) that is or becomes a Member to cease to be a Wholly-Owned Subsidiary of such Party so long as such Affiliate owns directly or indirectly any Interest of the Company, and if such Affiliate shall cease to be such a Wholly-Owned Subsidiary, such Affiliate shall automatically upon the occurrence of such event cease to be a "Permitted Transferee" for any purpose under this Agreement or the LLC Agreement, and the Party that was the ultimate parent thereof shall, or shall cause one or more of its Permitted Transferees to, immediately after the occurrence of such event, purchase all of such Interests held by such Affiliate free and clear of all Liens.

(g) Any Person that receives a Transfer of Interests pursuant to this Article 9 shall, subject to its compliance with the applicable provisions of this Article 9, including, in the case of a Permitted Transferee, Section 9.1(e), and in the case of any Third Party recipient of any Transfer of Interests, Section 9.2(e), be admitted as a Member of the Company in accordance with Article 8 of the LLC Agreement.

Section 9.2 Right of First Refusal; Tag Along Right.

(a) The Parties agree that if, at any time on or after the fifth anniversary of the Closing Date, any one or more Wachovia Members propose to Transfer any or all of its or their outstanding Interests to one or more Third Party transferees, Wachovia, on behalf of such Wachovia Members, shall first (i) obtain a bona fide written offer from such proposed transferee(s) setting forth in reasonable detail the terms and conditions of such offer (the "Third Party Offer") and (ii) offer to Prudential to sell to the Prudential Member or Members designated by Prudential, all but not less than all of the Interests proposed to be Transferred by such Wachovia Members pursuant to the Third Party Offer

(the "Offered Interests") at the same price and upon substantially the same terms and conditions as to certainty, financing support, contingent obligations and similarly material terms and without a materially longer period of time required to obtain any necessary Government Approvals as the Third Party Offer; provided that if such Third Party Offer shall provide for any non-cash consideration, in lieu thereof, the Prudential Member or Members must pay an amount in cash equal to the Appraised Value of such non-cash consideration in accordance with Section 11.2. Such offer by Wachovia to Prudential (the "Sale Offer") shall be in writing (the "Sale Notice") and irrevocable for a period (the "Election Period") of not less than 20 Business Days or, if later because of the delay in the determination of the fair market value of any non-cash consideration included in the Third Party Offer pursuant to Section 11.2, not less than 10 Business Days after such determination, shall have a copy of the Third Party Offer attached thereto, and shall include the identity of the Third Party transferee(s) and the material terms and conditions of such Third Party Offer including price and other financial terms to the extent not provided in the copy thereof attached to the Sale Notice.

(b) At any time during the Election Period, Prudential may elect to exercise (i) its right (the "First Refusal Right") to accept, on behalf of the Prudential Member or Members designated by it, the Sale Offer in its entirety, including but not limited to a purchase of all but not less than all of the Offered Interests or (ii) its right pursuant to Section 9.2(d) (the "Tag Along Right") to have the Prudential Members participate in the proposed Transfer pursuant to the Third Party Offer, in either case by delivering written notice to Wachovia within the Election Period specifying its election.

(c) If Prudential elects, on behalf of the Prudential Members, to exercise its First Refusal Right, then the following provisions shall apply:

(i) The closing of the sale of all such Offered Interests to the Prudential Members designated by Prudential shall take place as soon as reasonably practicable after the delivery of the written notice of election by Prudential referred to above, but in any event

not more than 15 Business Days following the end of the Election Period (or such later date as may be required to comply with applicable Law).

(ii) At such closing, the applicable Wachovia Members shall sell the Offered Interests to the Prudential Members designated by Prudential, and such Prudential Members shall make full payment of the purchase price for the Offered Interests by wire transfer in immediately available funds, to an account specified by Wachovia.

(d) If Prudential elects, on behalf of the Prudential Members, to exercise its Tag Along Right, the following provisions shall apply:

(i) The Prudential Members designated by Prudential shall have the right to sell to the proposed transferee(s) that made the Third Party Offer, as a condition to such Transfer by the Wachovia Members, the Interests representing the same proportion of the aggregate Percentage Interest owned by all Prudential

Members as the Offered Interests represent of the aggregate Interests owned by all Wachovia Members immediately prior to such Transfer (or, if the proposed transferee that made the Third Party Offer is a Major Insurance Company, then the Prudential Members designated by Prudential may sell 100% of their Membership Interests (or such lesser amount as Prudential, in its sole discretion, shall decide) to such transferee, regardless of the Percentage Interest that the Offered Interests represent), at the same price per Interest as the price to be paid for the Offered Interests as set forth in the Third Party Offer and otherwise on the same terms and conditions as are specified in the Third Party Offer, including but not limited to making the same representations, warranties, covenants, indemnities and agreements that the Wachovia Entities agree to make (except that, in the case of representations, warranties, covenants, indemnities and agreements pertaining specifically to the Wachovia Entities, the Prudential Entities shall make the comparable representations, warranties, covenants, indemnities and agreements pertaining specifically to such Prudential Entities, and any indemnification obligations of the Prudential Entities shall be several and joint only among the Prudential Entities).

(ii) The Wachovia Members may sell in the proposed Transfer the balance (but not more than 100%) of the Offered Interests proposed to be so Transferred. Wachovia and the Wachovia Members shall use their reasonable efforts to obtain the agreement of the proposed transferee(s) to the participation of the Prudential Members designated by Prudential in any proposed Transfer and shall not Transfer any Interests to such proposed transferee(s) unless such proposed transferee(s) allows the participation of such Prudential Members on the terms specified in the Third Party Offer.

(e) If Prudential does not exercise its First Refusal Right or Tag Along Right within the Election Period, or upon performance of Wachovia's obligations pursuant to Section 9.2(d) if Prudential has elected to exercise its Tag Along Right, the Wachovia Members may then Transfer all of the Offered Interests to the proposed transferee(s) who made the Third Party Offer (subject to reduction, if any, for Interests sold by the Prudential Members pursuant to the Tag Along Right) at the price and upon substantially the same terms and conditions of the Third Party Offer, and such proposed transferee(s) shall receive the Offered Interests so purchased. Such transferee shall (i) agree in writing (for the benefit of the transferor and each Party and Member bound by any of the terms of this Agreement) to be bound, on a proportionate basis (if applicable), by the terms and conditions of Article 8 (other than Section 8.4) and Articles 9 through 12 of this Agreement applicable to the transferor from which such transferee acquired such Offered Interests and (ii) execute and deliver a counterpart to the LLC Agreement (and, if requested by any Party, a guarantee substantially similar to Exhibit I hereto by the ultimate parent of such transferee), and shall be admitted as a Member of the Company in accordance with the terms of the LLC Agreement. Wachovia shall notify Prudential as to the identity of such Third Party transferee(s), the amount of Interests Transferred, and the date of Transfer, promptly upon the consummation of any Transfer of Interests with respect to which Prudential has exercised neither its First Refusal Right nor its Tag Along Right. The Wachovia Members shall not, and Wachovia shall not permit them to, make

any Transfer of any of such Offered Interests unless such Transfer is concluded within 90 days after expiration of the Election Period (or such longer period as may be required to comply with applicable Law). Upon the expiration of such period, the provisions of this Section 9.2 shall again

apply to all Offered Interests remaining unsold.

(f) Any change in price or material change in the terms and conditions of the Third Party Offer, or any change in the identity of the proposed transferee(s) (except for an Affiliate of such proposed transferee(s) who made the applicable Third Party Offer), shall make operative again the terms of this Section 9.2, and Wachovia, on behalf of the applicable Wachovia Members, shall again be required to offer such Offered Interests pursuant to the procedures set forth in this Section 9.2 to Prudential, on behalf of the Prudential Members, at such changed price or upon such materially changed terms and conditions or, in the case of such changed identity, at the applicable price or upon the applicable terms and conditions thereof.

Section 9.3 Prudential Put/Wachovia Call.

(a) Prudential and any Prudential Member shall have the right to require Wachovia, and Wachovia shall, or shall cause any Affiliate thereof designated by Wachovia, including any Company Entity, to purchase all (but not less than all) of the Interests in the Company held by all Prudential Members (the "Prudential Put") upon any of the following events (each, a "Prudential Put Event") at the prices indicated below (each, a "Prudential Put Price") (references to Prudential's investment in the Company and to Prudential's Percentage Interest as used in Sections 9.3 or 9.4 shall be deemed to include such investment and the Membership Interests and aggregate Percentage Interests of all of the Prudential Members):

(i) At any time after the second anniversary of the Closing Date and on or before the fifth anniversary of the Closing Date, at a price equal to the Cost Basis Price;

(ii) At any time after the fifth anniversary of the Closing Date, at a price equal to Prudential's Percentage Interest of the Appraised Value of the Company, provided, however, that Prudential shall not be entitled to exercise a Prudential Put pursuant to this Section 9.3(a)(ii) at any time prior to the first anniversary of the end of a Lookback Period if Prudential elected to make a capital contribution or a payment to the Combining Member at the end of such Lookback Period pursuant to Section 3.4(b)(iv)(A) of the LLC Agreement;

(iii) Upon a Bankruptcy of Wachovia, at a price equal to Prudential's Percentage Interest of the Appraised Value of the Company;

(iv) Upon an Intentional Breach by Wachovia, at a price equal to Prudential's Percentage Interest of the Appraised Value of the Company;

(v) Upon a Change of Control of Wachovia, at a price equal to Prudential's Percentage Interest of the Appraised Value of the Company;

(vi) Upon the occurrence of a Broker Contribution Date with respect to a Large Retail Brokerage Combination in which Wachovia or any of its Affiliates is the Combining Party, unless Prudential shall have elected to exercise its Lookback Option, at a price equal to Prudential's Percentage Interest of the Appraised Value of the Company; provided that for purposes of this clause (vi), such Appraised Value shall not include the Appraised Value of the Acquired Retail Brokerage Business in respect of which Prudential has exercised the Prudential Put; and

(vii) Upon the expiration of the Lookback Period with respect to the contribution of a Large Retail Broker as to which Prudential has exercised its Lookback Option, at a price equal to Prudential's Percentage Interest of the Appraised Value of the Company; provided that for purposes of this clause (vii), (A) such Appraised Value shall not include the Appraised Value of the Acquired Retail Brokerage Business in respect of which the Prudential Members shall have exercised their Lookback Option, (B) no adjustments shall be made to the Appraised Value of the Company for events or changes occurring after the Broker Contribution Date, (C) such Appraised Value shall be deemed to be equal to the Appraised Value of the Company as of the Broker Contribution Date (but giving effect for these purposes to the applicable provisos contained in the definition of "Appraised Value"), (D) there shall be added to such Appraised Value (1) any capital contributions made by the Prudential Members to the Company during the Lookback Period and (2) any amounts paid by the Prudential Members to the Wachovia Members in respect of any purchase of Membership Interests from such Wachovia Members, and (E) there shall be subtracted from such Appraised Value (1) any amounts paid by the

Wachovia Members to the Prudential Members in respect of any purchase of Membership Interests from such Prudential Members and (2) any payments from the Company to the Prudential Members upon redemption of their Membership Interests.

(b) Wachovia and any Wachovia Member shall have the right to require Prudential and all of the Prudential Members to sell to Wachovia or any Affiliate thereof designated by Wachovia, including any Company Entity, all (but not less than all) of the Interests in the Company held by all Prudential Members (the "Wachovia Call") upon any of the following events (each, a "Wachovia Call Event" and, together with a Prudential Put Event, a "Put/Call Event") at the prices indicated below (each, a "Wachovia Call Price" and, together with a Prudential Put Price, a "Put/Call Price"):

(i) At any time after the fifteenth anniversary of the Closing Date, at a price equal to Prudential's Percentage Interest of the Appraised Value of the Company;

(ii) Upon a Bankruptcy of Prudential, at a price equal to Prudential's Percentage Interest of the Appraised Value of the Company;

(iii) Upon an Intentional Breach by Prudential, at a price equal to the following: (A) in the case of a breach described in clause (a) of the definition of

"Intentional Breach" occurring on or before the fifth anniversary of the Closing Date, Prudential's Percentage Interest of the Tangible Book Value of the Company, or (B) in the case of (1) a breach described in clause (a) of the definition of "Intentional Breach" occurring after the fifth anniversary of the Closing Date or (2) a breach described in clause (b) of the definition of Intentional Breach occurring at any time, Prudential's Percentage Interest of the Appraised Value of the Company;

(iv) Upon a Change of Control of Prudential, at a price equal to Prudential's Percentage Interest of the Appraised Value of the Company;

(v) At any time after the fifth anniversary of the Closing Date, if Prudential's Percentage Interest is less than 10.0%, at a price equal to Prudential's Percentage Interest of the Appraised Value of the Company; provided that if Prudential has exercised its Lookback Option, Wachovia shall not be entitled to exercise its call right pursuant to this Section 9.3(b)(v) until the expiration of the related Lookback Period; and

(vi) Upon the consummation of a Large Retail Brokerage Combination in which Prudential or any of its Affiliates is the Combining Party, at a price equal to Prudential's Percentage Interest of the Appraised Value of the Company, unless Prudential is required to, or shall have elected to exercise its right to, divest such Large Retail Broker pursuant to Section 8.3(c)(iv).

(c) If a Party exercises its right pursuant to a Prudential Put or Wachovia Call, the Party exercising such right shall give the other Party notice in writing stating such election (the "Put/Call Exercise Notice"). Such Put/Call Exercise Notice shall be delivered as follows:

(i) In the case of a Put/Call Event described in Section 9.3(a)(i), at any time during the period specified in such Section or up to 180 days prior to the beginning of such period;

(ii) In the case of a Discretionary Put/Call, within 30 days after the receipt of any Preliminary Valuation issued pursuant to Section 9.4;

(iii) In the case of a Put/Call Event specified in Sections 9.3(a)(iii), 9.3(a)(iv), 9.3(b)(ii) or 9.3(b)(iii), within 30 days after the expiration of the applicable grace period set forth in the definition of Intentional Breach or Bankruptcy Event, as applicable or, if later, in the case of an Intentional Breach, the final determination that such Intentional Breach occurred and was uncured pursuant to Section 12.12(b); provided that the Put/Call Event giving rise to the Put/Call Exercise Notice is continuing on such date of delivery (which, in the case of an Intentional Breach, shall be presumed following receipt of the arbitrator's decision as provided in Section 12.12(b)); and provided, further, that in the case of a Put/Call Event arising from an Intentional Breach of a type described in clause (b) of the definition thereof, if the non-breaching Party elects to extend the

one-year grace period referred to in such clause (b), the period during which such non-breaching Party shall be entitled to exercise its Wachovia Call or Prudential Put (as the case may be) in respect thereof shall be similarly extended;

(iv) In the case of a Put/Call Event specified in Sections 9.3(a)(v), 9.3(a)(vi), 9.3(b)(iv) or 9.3(b)(vi), on or prior to the 20th Business Day following receipt of the notice provided by the Combining Party with respect to the Put/Call Event pursuant to Section 8.3(c)(i); and

(v) In the case of a Put/Call Event specified in Section 9.3(a)(vii), not later than the date of the expiration of the Lookback Period.

(d) Upon delivery of a Put/Call Exercise Notice, each Party shall promptly designate a representative (a "Put/Call Representative") who shall be an individual responsible for overseeing the exercise of the Prudential Put or Wachovia Call, to whom all communications on such matter will be directed, and who shall have authority to act on behalf of the Party that appointed him or her. Each Party may replace its Put/Call Representative at any time upon written notice to the other Put/Call Representative. The Put/Call Representatives shall meet as soon as practicable, but in any event not later than five Business Days, following delivery of the Put/Call Exercise Notice (or if more than one has been delivered, the first to have been delivered). The Put/Call Representatives will meet in good faith to prepare a plan (a "Put/Call Plan") pursuant to which Wachovia shall acquire Prudential's Interests based upon the valuation method specified for the applicable Put/Call Event. If the applicable Prudential Put Price is the Cost Basis Price, such price shall be determined as of the date of delivery of the applicable Put/Call Exercise Notice. If the applicable Wachovia Call Price is the Tangible Book Value of the Company, such price shall be determined as of the last day of the month immediately preceding the delivery of the Put/Call Exercise Notice. For all other Put/Call Events, the Put/Call Price shall be determined as of the date of the final determination of the Appraised Value of the Company in accordance with Section 9.4 or Article 11, as applicable. The Parties, through their Put/Call Representatives, will promptly cause the applicable procedures for determining the applicable Put/Call Price to be commenced, shall identify and promptly commence the steps necessary for obtaining all Governmental Approvals and Third Party Approvals necessary to consummate the Prudential Put or Wachovia Call, as applicable, and shall prepare all required documentation. The Parties shall take, or cause to be taken, all necessary and appropriate steps to cause such Put/Call Plan to be implemented as promptly as practicable. If the Parties are disputing the existence of a Put/Call Event in accordance with Sections 12.11 or 12.12, the Parties shall nonetheless appoint Put/Call Representatives who shall prepare the Put/Call Plan but may delay the implementation thereof until the existence of the Put/Call Event has been determined.

(e) The closing of any Prudential Put shall take place at such location and on such date after the delivery of the relevant Put/Call Exercise Notice as shall be determined by Prudential, and the closing of any Wachovia Call shall take place at such location and on such date after the delivery of the relevant Put/Call Exercise Notice as shall be determined by Wachovia (either, the "Put/Call Closing"); provided, however, that, except

in the case of a Discretionary Put/Call, the Put/Call Closing shall occur not earlier than 30 days after and not later than 180 days after the delivery of the Put/Call Exercise Notice. In the case of a Discretionary Put/Call, the Put/Call Closing shall occur on or as soon as reasonably practicable following the first anniversary of the delivery of the Put/Call Exercise Notice (the "Discretionary Put/Call Closing Date") unless such Put/Call Exercise Notice is withdrawn as permitted in accordance with Section 9.4. Subject to Section 8.3(c)(iv), except with respect to such withdrawal of a Discretionary Put/Call in accordance with Section 9.4, once delivered, a Put/Call Exercise Notice shall be irrevocable except with the mutual consent of the Parties. The Parties shall act in good faith to cause the Put/Call Closing to occur at such location and on such date as determined by the foregoing provisions; provided that the Parties acknowledge that such date may be delayed due to delays in the receipt of any Governmental Approvals required under applicable Law for Wachovia to acquire Prudential's Interests in such Prudential Put or Wachovia Call.

(f) Wachovia may pay the purchase price for the Wachovia Call or the Prudential Put either in cash by wire transfer of immediately available funds, by delivery of a number of shares of Wachovia Common Stock equal to the Put/Call Price divided by the Average Stock Price as of the date of the

Put/Call Closing, or with a combination thereof, in the sole discretion of Wachovia, as indicated in the Put/Call Exercise Notice (or in the case of a Prudential Put, in a written notice by Wachovia delivered to Prudential with 15 Business Days following such Put/Call Exercise Notice); provided that such purchase price shall be payable only in cash and not in Wachovia Common Stock if on the date of the Put/Call Closing:

(i) there has occurred and is continuing a Bankruptcy of Wachovia;

(ii) the issuance of Wachovia Common Stock to Prudential is prohibited by applicable Law; or

(iii) Wachovia fails to deliver an opinion of counsel (which may be in-house counsel) confirming that (x) such shares of Wachovia Common Stock are duly authorized, validly issued, fully paid and non-assessable, and (y) such shares have been accepted for listing or quotation (subject to official notice of issuance) on the primary stock exchange or quotation system on which the Wachovia Common Stock is then listed or traded.

In the event that Wachovia pays all or part of the Put/Call Price in such shares of Wachovia Common Stock, then (1) Wachovia shall register such shares for resale pursuant to a shelf registration statement by using its reasonable best efforts to file a registration statement and have it declared effective within 120 days after delivery of the Put/Call Exercise Notice or, if the Put/Call Closing is scheduled to occur later than the end of such 120-day period, on the date of the Put/Call Closing, and to use its reasonable best efforts to cause such registration statement to remain effective until the earlier of (A) the second anniversary of the applicable Put/Call Closing, and (B) such time as Prudential has disposed of such shares or is permitted to dispose of such shares pursuant to Rule 144(k) of the Securities Act, (2) Wachovia and Prudential shall enter into a

registration rights agreement containing customary terms and conditions, including those set forth in Schedule 9.3(f), and (3) Prudential shall make such customary representations, warranties and covenants to Wachovia applicable for an issuance of securities pursuant to Section 4(2) of the Securities Act, including but not limited to such customary representations, warranties and covenants to permit Wachovia to make a filing with the SEC on Form D in reliance upon Rule 506 of the Securities Act.

(g) In cases where more than one Put/Call Event applies, the Parties agree as follows:

(i) Wachovia may specify in its Put/Call Exercise Notice the Wachovia Call Event that results in the lowest payment to Prudential;

(ii) Prudential may specify in its Put/Call Exercise Notice the Prudential Put Event that results in the highest payment to Prudential;

(iii) if the Parties deliver Put/Call Exercise Notices to each other within 20 Business Days of the date of delivery of such Put/Call Exercise Notices, (x) if one Party's Put/Call Exercise Notice is in connection with a Discretionary Put/Call or a Prudential Put Event described in Section 9.3(a)(i), such Party's Put/Call Exercise Notice shall be disregarded, and (y) after giving effect to clause (x), the Put/Call Price shall be the lowest of the applicable Put/Call Prices; and

(iv) if a Party delivers a Put/Call Exercise Notice to the other Party more than 20 Business Days after the date of delivery of a Put/Call Exercise Notice by the first Party, then (x) if only one such Put/Call Exercise Notice is with respect to a Discretionary Put/Call, such Put/Call Exercise Notice shall be disregarded, and (y) after giving effect to clause (x), the first delivered Put/Call Exercise Notice shall control.

(h) During any Third Party Offer, either Party may exercise a Prudential Put or Wachovia Call, as the case may be; provided that neither a Prudential Put nor a Wachovia Call may be exercised after Prudential has exercised its Right of First Refusal or Tag Along Right until such rights with respect to the Third Party Offer related thereto are consummated or expire pursuant to Section 9.2. If after the delivery of a Put/Call Exercise Notice but before the Put/Call Closing, there is a Third Party Offer, Prudential may in its sole discretion elect to Transfer its Interests pursuant to either the Prudential Put or Wachovia Call (as applicable) or to exercise its Tag Along Right (as applicable), or if applicable a combination of the foregoing, in its discretion; provided that

all of Prudential's Interests that are not Transferred pursuant to such Tag Along Right shall remain subject to the Wachovia Call or the Prudential Put, as the case may be.

(i) Within 30 days after the Put/Call Closing, Wachovia shall repay or cause one of its Affiliates or a Company Entity to repay the Prudential Note in full or purchase the Prudential Note from Prudential at a price equal to the unpaid principal amount thereof plus accrued and unpaid interest to the date of repurchase.

Section 9.4 Preliminary Valuation Procedures for Discretionary Put/Call.

(a) If either Party desires to exercise a Discretionary Put/Call, it shall first retain a nationally recognized investment banking firm that is not an Affiliate of either Party or the Company on such Party's behalf to calculate the Appraised Value of the Company (the "Preliminary Valuation") in accordance with the definition of Appraised Value and the parameters set forth in Section 11.4. The Company shall cooperate with such investment banking firm to provide such information as may be reasonably requested by it in connection with the Preliminary Valuation. The fees and expenses of such investment banking firm shall be paid by the Party exercising such Discretionary Put/Call.

(b) Within 30 days of receiving the Preliminary Valuation, the exercising Party may, at its election, deliver to the other Party a Put/Call Exercise Notice.

(c) If a Put/Call Exercise Notice is sent following a Preliminary Valuation, then the Parties' Put/Call Representatives shall, not later than the 180th day after delivery of the Put/Call Exercise Notice, commence a determination of the Appraised Value of the Company in accordance with Article 11; provided that the completion of the final determination of Appraised Value pursuant to that process shall be managed to ensure that such final determination shall be the Appraised Value of the Company as of a date not more than 30 nor less than 15 days prior to the Discretionary Put/Call Closing Date.

(d) If Prudential is the Party that delivered the Put/Call Exercise Notice and if the Appraised Value determined pursuant to Section 9.4(c) is greater than or equal to 80% of the Preliminary Valuation, then Prudential shall be obligated to exercise its Prudential Put, at a price equal to its Percentage Interest of the Appraised Value of the Company determined pursuant to the Preliminary Valuation, and to consummate the Prudential Put on the Discretionary Put/Call Closing Date or as soon as reasonably practicable thereafter. If the Appraised Value determined pursuant to Section 9.4(c) is less than 80% of the Appraised Value determined pursuant to the Preliminary Valuation, Prudential shall be entitled, but not obligated, to exercise the Prudential Put at a Put Price equal to its Percentage Interest of the Appraised Value of the Company determined pursuant to Section 9.4(c), and if Prudential elects not to exercise its Prudential Put in such event, it shall deliver a written notice to Wachovia withdrawing its Put/Call Exercise Notice not less than five Business Days prior to the Discretionary Put/Call Closing Date.

(e) If Wachovia is the Party that delivered the Put/Call Exercise Notice and if the Appraised Value determined pursuant to Section 9.4(c) is less than or equal to 120% of the Preliminary Valuation, then Wachovia shall be obligated to exercise its Wachovia Call, at a price equal to Prudential's Percentage Interest of the Appraised Value of the Company as determined pursuant to the Preliminary Valuation, and to consummate the purchase pursuant to the Wachovia Call on the Discretionary Put/Call Closing Date or as soon as reasonably practicable thereafter. If the Appraised Value determined pursuant to Section 9.4(c) is more than 120% of the Appraised Value determined pursuant to the Preliminary Valuation, Wachovia shall be entitled, but not obligated, to exercise the Wachovia Call at a Call Price equal to Prudential's Percentage Interest of the Appraised

Value of the Company determined pursuant to Section 9.4(c), and if Wachovia elects not to exercise its Wachovia Call, it shall deliver a written notice to Prudential withdrawing its Put/Call Exercise Notice not less than five Business Days prior to the Discretionary Put/Call Closing Date.

(f) No Party shall be entitled to deliver a Put/Call Exercise Notice with respect to a Discretionary Put/Call more than once in any 36-month period commencing on the date such Party last delivered a Put/Call Exercise Notice.

Section 9.5 Further Assurances; Timing.

(a) Each Party shall, and shall cause each of its Permitted Transferees to, take such actions and execute such documents and instruments as the Company or the other Party reasonably deems necessary or desirable in order to consummate expeditiously any of the Transfers or other transactions permitted or required by this Article 9. Any of the dates referred to in this Article 9 in connection with Transfers, the First Refusal Right, the Tag Along Right, the Prudential Put or the Wachovia Call may be delayed by the Company or any Party, in each case acting in good faith, if any Governmental Approval or Third Party Approval is required therefor and has not yet been obtained; provided that such delay shall not have been caused by, or due to the lack of diligence by, the Person seeking such delay; and provided, further that if the Put/Call Closing Date is delayed due to a Governmental Approval or Third Party Approval, the Put/Call Closing Date shall occur on the fifth Business Day following the date on which the last such Governmental Approval or Third Party Approval is obtained.

(b) Each Party covenants that it shall not, and shall cause its controlled Affiliates not to, enter into any agreement that prevents the performance of any of their respective obligations with respect to the exercise of the Prudential Put or Wachovia Call on the terms specified in Section 9.3.

ARTICLE 10

TERM AND TERMINATION

Section 10.1 Termination Prior to Closing. This Agreement may be terminated at any time prior to the Closing:

(a) by mutual written consent of the Parties at any time;

(b) by either Party upon written notice to the other Party in the event that any Governmental Authority (i) the Governmental Approval of which is listed on Schedule 6.1(d) or Schedule 6.2(d) shall have issued an Order or taken any other official action denying such Governmental Approval, or (ii) has taken any of the actions specified in Sections 6.1(c) or 6.2(c), and in any such case such Order or other action shall have become final and non-appealable;

(c) by any Party upon written notice to the other Party at any time after 5:00 p.m., New York City time, on November 30, 2003, in the event that the Closing shall not have

occurred on or prior to such date and time; provided, however, that such date shall be extended by an additional 60 days if (i) the conditions set forth in Sections 6.1(d) or 6.2(d) shall not have been satisfied prior to such date and time, (ii) all other conditions to Closing in this Agreement have been satisfied or waived, and (iii) the applicable Party is continuing to diligently pursue such Governmental Approvals; and provided, further, that the right to terminate this Agreement under this Section 10.1(c) shall not be available to any Party that is at such time in material breach of any of the provisions of this Agreement or any other Transaction Document;

(d) by Wachovia, upon written notice to Prudential, if (A) there has been a material misrepresentation or breach of warranty or covenant or agreement made or to be performed by or on the part of Prudential pursuant to this Agreement, (B) such misrepresentation or breach has not been or cannot be cured within a period of 120 days following the delivery of written notice to Prudential of such misrepresentation or breach by Wachovia, and (C) the effect of such misrepresentation or breach is to prevent the satisfaction of any condition specified in Section 6.1(a) or 6.1(b); or

(e) by Prudential, upon written notice to Wachovia, if (A) there has been a material misrepresentation or breach of warranty or covenant or agreement made or to be performed by or on the part of Wachovia pursuant to this Agreement, (B) such misrepresentation or breach has not or cannot be cured within a period of 120 days following the delivery of written notice to Wachovia of such misrepresentation or breach by Prudential, and (C) the effect of such misrepresentation or breach is to prevent the satisfaction of any condition specified in Section 6.2(a) or 6.2(b).

Section 10.2 Termination After Closing. If the Closing occurs, this Agreement shall continue to remain in full force and effect until (i) the Parties mutually agree in writing to terminate this Agreement, or (ii) the Company is dissolved in accordance with the terms of the LLC Agreement. In addition, except as otherwise expressly provided in Section 10.3, (A) the rights and obligations of a Party hereunder shall be terminated at the time such Party shall no longer beneficially own, whether by itself or through the Initial

Member or one or more Permitted Transferees, any Interests in the Company, and (B) the rights and obligations of any Person as a Member of the Company shall terminate when such Person shall have ceased to be a Member of the Company.

Section 10.3 Effect of Termination. If this Agreement is terminated in whole or with respect to any Person in accordance with Section 10.1 or 10.2, no covenants, agreements, representations or warranties contained herein shall survive the termination of this Agreement except (x) Article 12 (other than Section 12.2), (y) those provisions that by their express terms survive such termination and (z) in the case of a termination pursuant to Section 10.2, Article 7 (and, to the extent set forth in Section 7.1, the representations and warranties referred to therein); provided, however, that no termination of this Agreement shall release a breaching Party from any liability for any breach of this Agreement.

ARTICLE 11

FAIR MARKET VALUE

Section 11.1 Appraised Value of the Company and Acquired Retail Brokerage Business.

(a) Except as otherwise provided in this Agreement, all determinations of Appraised Value of the Company or an Acquired Retail Brokerage Business shall be determined in accordance with the procedures set forth in this Article 11.

(b) The Parties shall by mutual agreement select a nationally recognized investment bank that is not an Affiliate of either Party or the Company to determine Appraised Value. The fees and expenses of such investment bank shall be shared by the Parties equally. The Parties will instruct the Appraiser to complete the valuation as quickly as possible, but in any event within 20 Business Days of its engagement, to conform its valuation to the definition of "Appraised Value" set forth in this Agreement, and to state the Appraised Value as a number and not a range. The valuation of such investment bank shall be binding upon the Parties.

(c) If the Parties do not mutually agree upon an investment bank within 15 Business Days of the initial inquiry to establish the Appraised Value, then within 5 Business Days of such 15th Business Day, each Party shall engage its own investment bank that is not an Affiliate of either Party to perform a valuation as an Appraiser. Each Party will instruct its Appraiser to complete the valuation as quickly as possible, but in any event within 20 Business Days of its engagement, to conform its valuation to the definition of "Appraised Value" set forth in this Agreement, and to state the Appraised Value as a number and not a range. Each Party will pay the fees and expenses of the Appraiser it selected.

(d) If the lower Appraised Value is 15% or less lower than the higher Appraised Value, then the Appraised Value of the Company or the Acquired Retail Brokerage Business, as the case may be, will be the average of the two Appraised Values.

(e) If the lower Appraised Value is more than 15% lower than the higher Appraised Value, then within 5 Business Days of the date that the second of the two Appraised Values was determined, the two investment banks will select, and the Parties will jointly engage, a third investment bank that is not an Affiliate of either Party or the Company. The third investment bank will be instructed by the Parties to complete its valuation within 15 Business Days of the date of its engagement, to determine the valuation in accordance with the definition of "Appraised Value" set forth in this Agreement, and to state the Appraised Value as a number and not a range. The value of the Appraised Company will be the average of the two Appraised Values that are closest together, with the third Appraised Value being disregarded. The fees and expenses of the third investment bank shall be shared by the Parties equally. The valuations of such investment banks or such average, as the case may be, shall be binding on the Parties.

(f) Notwithstanding the foregoing, the Tangible Book Value of the Company and the Cost Basis Price for purposes of Section 9.3 shall be calculated in good faith by the Company based on the Company's financial statements for the then-most recently ended fiscal quarter and its internal accounting records, including its record of capital accounts maintained pursuant to Article 3 of LLC Agreement. The Company shall make reasonably available to Wachovia and Prudential and their respective accountants all relevant books and records, work papers (including accountants' work papers) and other supporting documentation relating to the determination of the Tangible Book Value of the Company and the Cost Basis Price. If Prudential or Wachovia believes that the Company's determination of the

Tangible Book Value or the Cost Basis Price has not been determined in accordance with the Company's books and records and the requirements of the definition thereof (including that the Tangible Book Value of the Company be determined in accordance with GAAP), Prudential or Wachovia, as the case may be, shall be entitled to deliver, within 10 days of the receipt of the Company's determination, a written objection to such determination (or to any aspect of the financial statements upon which such determination was based), setting forth in reasonable detail the basis for such objection and the adjustment to Tangible Book Value or the Cost Basis Price, as the case may be, which Prudential or Wachovia, as the case may be, believes should be made in order for such determination to be consistent with the definition of Tangible Book Value or Cost Basis Price, as the case may be. The Parties shall use their good faith efforts to promptly resolve any such objections. If the Parties shall not have resolved all such objections on or prior to the 20th day after receipt thereof (or of the latest arriving objection if both Parties submitted objections), then the Parties shall submit any remaining objections to the CPA Firm; provided that if Ernst & Young is then retained, or has been retained in the preceding 12-month period, by either Party, the CPA Firm shall not be Ernst & Young, and the Parties shall mutually agree on another nationally recognized firm of independent public accountants to act as the CPA Firm; provided further that if the Parties are unable to agree on such other nationally recognized firm of independent public accountants, the CPA Firm shall be determined in accordance with Section 2.5(d). The CPA Firm shall, acting as experts in accounting and not as arbitrators and only with respect to the remaining disputed items, determine whether any adjustment is required to the Company's determination of Tangible Net Worth or Cost Basis Price, as the case may be, to cause such determination to be consistent with the applicable definition thereof set forth in this Agreement. The Parties shall request the CPA Firm to render its determination within 30 days. Such determination shall be binding on the Parties solely for purposes of determining the Put/Call Price pursuant to Section 9.3 of this Agreement. The fees and expenses of the CPA Firm shall be shared equally by the Parties.

Section 11.2 Other Appraised Values.

(a) Except as otherwise provided in this Agreement, all determinations of Appraised Value or other values not specified in Section 11.1 shall be determined in accordance with the procedures set forth in this Section 11.2.

(b) The Parties shall negotiate in good faith to mutually agree upon the Appraised Value or other value of the asset or other item in question. If the Parties fail to so

mutually agree within 30 days after the initial request by either Party for the determination of such Appraised Value or other value, the Parties shall abide by the procedures of Section 11.1.

Section 11.3 Access to Information. The Parties shall use their reasonable efforts to, and the Company shall, provide each investment bank selected to perform an appraisal pursuant to Section 9.4 or this Article 11 with access at all reasonable times to the accounting records and other records of the Company or the Acquired Retail Brokerage Business (including any Subsidiary thereof), as the case may be, and afford such investment bank a meaningful opportunity to discuss such information about the business and operations thereof as such investment bank reasonably requires to make a reasonably informed determination of Appraised Value. The Company or the relevant Party will prepare a cash flow analysis and projections and such other assistance in the form as such investment bank may reasonably request, copies of which will be provided to each Party. The officers of the Company or the relevant Party shall hold meetings at which such investment bank may ask questions regarding the Company; provided that each Party (or their representatives) shall be invited to attend any such meeting.

Section 11.4 Process. The Parties agree that, in determining Appraised Value under this Article 11, each investment bank:

(a) will act as an expert and not as an arbitrator;

(b) may obtain or refer to any documents, information or material, and undertake any inspections or inquiries as it determines appropriate;

(c) will provide the Parties with a draft of its determination, and will give the Parties an opportunity to comment on the draft determination before it is finalized; and

(d) may engage such assistance as it reasonably believes is appropriate or necessary to make a determination.

ARTICLE 12

MISCELLANEOUS

Section 12.1 Expenses. Except as expressly provided for herein, each of the Parties shall pay the fees and expenses of its respective counsel, accountants and other experts and shall pay all other fees and expenses incurred by it in connection with the negotiation, preparation and execution of the Transaction Documents and the consummation of the transactions contemplated by this Agreement; provided that Prudential and Wachovia shall share, pro rata based upon their respective Percentage Interests, (A) any fees or other amounts required to be paid to any Person in respect of obtaining any Third Party Approval from such Person required in order to contribute any Prudential Contract or Wachovia Contract or any other lease, contract, agreement or other instrument that constitutes a Contributed Asset or a Contributed Liability under this Agreement, (B) any termination costs (including but not limited to early termination fees, prepayment penalties and similar charges), damages or expenses incurred as a result of the termination of any Prudential Contract or Wachovia Contract or any other lease agreement, contract or instrument constituting a Contributed Asset or Contributed Liability upon

the exercise of any termination or similar right arising as a result of the contribution of such Wachovia Contract, Prudential Contract or other lease, contract, agreement or instrument to the Company pursuant to this Agreement, (C) any costs or expenses of replacing any lease, contract, agreement or other instrument terminated as referred to in clause (B) above, or (D) any recordation fees and any real property transfer taxes payable to a Governmental Authority in respect of the consummation of the transactions contemplated by the Real Property Transfer Documents; provided, however, that (1) no Party shall be responsible for any share of any payment referred to in the foregoing proviso arising out of or relating to any license, contract, agreement or other instrument that fails to qualify as a Contributed Asset or Contributed Liability hereunder in accordance with Section 5.4; (2) Wachovia's share of the expenses incurred by Prudential, its Subsidiaries and other Affiliates as described in the foregoing in respect of any Small Contract shall (together with all termination and similar costs paid by the Company pursuant to Section 5.4 in respect of Small Contracts) in no event exceed the amount set forth in Schedule 5.4(b) for any single such Small Contract or the aggregate amount set forth in Schedule 5.4(b) for all such Small Contracts; and (3) no Party shall be required to pay any amounts referred to in this Section 12.1 that have previously been reimbursed or contributed by such Party as a One Time Cost.

Section 12.2 Publicity. Except as provided in Schedule 8.2(g), no press release or other public disclosure with respect to this Agreement or the transactions contemplated hereby may be issued by any Party or its Affiliates without the other Party's consent, which consent shall not be unreasonably withheld or delayed by such other Party; provided, however, that if any Party is required by Law, including the rules of any stock exchange on which such Party's securities are listed, to issue a press release or other public disclosure with respect to this Agreement or the transactions contemplated hereby, such Party shall consult with the other Party as to the content of such press release or other public disclosure before it is issued to the extent practicable in the circumstances; provided, further, that with respect to any public disclosure consisting of a filing with the SEC, the Party making such filing shall be deemed to have satisfied its obligations under this Section 12.2 if it shall have provided advance written notice to the other Party of its intention to make such filing and shall use its reasonable best efforts to provide a copy of the relevant sections prior to such public disclosure; provided, further that this Section shall not apply to press releases and such other public disclosure already agreed upon or consented to by the Parties; and provided, finally, that nothing in this provision shall affect the Company's right to issue press releases with respect to its operations following the Closing Date so long as such press releases do not disclose the terms of this Agreement or the other Transaction Documents not theretofore publicly disclosed by either of the Parties.

Section 12.3 Amendment or Modification. This Agreement may not be amended or modified by the Parties, except by an instrument in writing signed by each of the Parties.

Section 12.4 Waiver. Except as otherwise specifically provided herein, any provision of this Agreement may only be waived at any time by an instrument signed in writing by the Party entitled to the benefit thereof. Except as specifically provided herein, the failure or delay of any Party to enforce at any time any of the provisions of this Agreement shall in no way be construed to be a waiver of any such provision, nor in any way to affect the validity of this Agreement or any part hereof or the right of such Party thereafter to enforce each and every such

provision. No waiver of any breach of or non-compliance with this Agreement

shall be held to be a waiver of any other or subsequent breach or non-compliance. Except as specifically provided herein, all remedies, either under this Agreement or by Law or otherwise afforded, will be cumulative and not alternative.

Section 12.5 Entire Agreement. This Agreement, the Confidentiality Agreements and the other documents and agreements contemplated hereby contain the entire agreement between the Parties with respect to the subject matter hereof and supersede and cancel all prior agreements, understandings, representations and warranties, both oral and written, between the Parties with respect thereto. There are no agreements, undertakings, representations or warranties of any of the Parties with respect to the transactions contemplated hereby and thereby other than those set forth herein or therein or made hereunder or thereunder.

Section 12.6 Third-Party Beneficiaries. Nothing in this Agreement, express or implied, is intended to confer, nor shall anything herein confer, on any Person other than the Parties and their respective successors or permitted assigns, any rights, remedies, obligations or liabilities, except that the Company shall be, until it agrees to become a party to this Agreement on the Closing Date as required by Section 2.4, a third-party beneficiary of any provision of this Agreement applicable to the Company and the Indemnitees shall be third-party beneficiaries of the provisions of Article 7 applicable to them; provided that all Claims for indemnification by any such Indemnitee shall be made only in the name and on behalf of such Indemnitee by a Party.

Section 12.7 Non-Assignability; Binding Effect. Except as expressly permitted by Section 9.1 or 9.2, this Agreement shall not be assignable, in part or in whole, by either Party without the prior written consent of the other Party. A purported assignment of this Agreement or any of the rights, interests or obligations hereunder not in compliance with the provisions of the Agreement shall be null and void ab initio. Subject to the foregoing, this Agreement shall inure to the benefit of and be binding upon the Parties and their respective successors and permitted assigns.

Section 12.8 Severability. Every provision of this Agreement is intended to be severable. If any term or provision hereof is declared or held illegal or invalid, in whole or in part, for any reason whatsoever, such illegality or invalidity shall not affect the validity or enforceability of the remainder of the Agreement, and such provision shall be deemed amended or modified to the extent, but only to the extent, necessary to cure such illegality or invalidity. Upon such determination of illegality or invalidity, the Parties shall negotiate in good faith to amend this Agreement to effect the original intent of the Parties. In any event, the invalidity or unenforceability of any provision of this Agreement in any jurisdiction shall not affect the validity or enforceability of this Agreement, including that provision, in any other competent jurisdiction.

Section 12.9 Injunctive Relief. The Parties acknowledge and agree that a violation of any of the terms of Sections 8.2 or 8.3 of this Agreement will cause the other Party and the Company irreparable injury for which an adequate remedy at law is not available, and if any Party institutes any action or proceeding to enforce such provisions, any Party against whom such action or proceeding is brought hereby waives the claim or defense therein that an adequate

remedy at law exists. Accordingly, it is agreed that each of the Parties and the Company will be entitled to an injunction, restraining order or other equitable relief to prevent breaches of such provisions of this Agreement and to enforce specifically such provisions hereof in any court of competent jurisdiction, in addition to any other remedy to which they may be entitled at law or equity, except as otherwise specifically provided in this Agreement.

Section 12.10 GOVERNING LAW. THIS AGREEMENT SHALL BE GOVERNED BY, AND BE CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED ENTIRELY WITHIN SUCH STATE, EXCEPT TO THE EXTENT THAT THE DELAWARE LIMITED LIABILITY COMPANY ACT APPLIES WITH RESPECT TO THE COMPANY.

Section 12.11 Submission to Jurisdiction. Each Party irrevocably submits to the exclusive jurisdiction of (i) the Supreme Court of the State of New York, New York County, and (ii) the United States District Court for the Southern District of New York, for the purposes of any suit, action or other proceeding arising out of this Agreement or any transaction contemplated hereby. Each Party agrees to commence any action, suit or proceeding relating hereto either in the United States District Court for the Southern District of New York or, if such suit, action or other proceeding may not be brought in such court for reasons of subject matter jurisdiction, in the Supreme Court of the State of New York, New York County. Each Party irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the transactions contemplated hereby in (A) the Supreme Court of the State of New York, New York County, or (B) the United States

District Court for the Southern District of New York, and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum. Each Party further irrevocably consents to the service of process out of any of the aforementioned courts in any such suit, action or other proceeding by the mailing of copies thereof by mail to such Party at its address set forth in this Agreement, such service of process to be effective upon acknowledgment of receipt of such registered mail; provided that nothing in this Section 12.11 shall affect the right of any Party to serve legal process in any other manner permitted by Law. The consent to jurisdiction set forth in this Section 12.11 shall not constitute a general consent to service of process in the State of New York and shall have no effect for any purpose except as provided in this Section 12.11. The Parties agree that a final judgment in any such suit, action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by Law.

Section 12.12 Alternative Dispute Resolution.

(a) Non-Binding Mediation. Except as provided herein, no action, suit or proceeding with respect to any dispute, claim or controversy arising out of or relating to this Agreement may be commenced until the matter has been submitted to a mediator for non-binding mediation. The Parties agree to submit such dispute, claim or controversy to JAMS, or its successor, or another forum mutually agreed upon by the Parties (the "Mediation Forum"). Either Party may commence non-binding mediation by providing to the Mediation Forum and the other Party a written request for non-binding mediation,

setting forth the subject of the dispute, claim or controversy and the relief requested. The Parties agree to cooperate with the Mediation Forum and with one another in selecting a mediator from the Mediation Forum's panel of neutral mediators, and in scheduling the mediation proceedings. The Parties agree that they will participate in the non-binding mediation in good faith, and that they will share equally in its costs. The Parties agree that all offers, promises, conduct and statements, whether oral or written, made in the course of the non-binding mediation by any of the Parties, their agents, employees, experts and attorneys, and by the mediator and any other employees of the Mediation Forum, shall be confidential, privileged and inadmissible for any purpose, including impeachment, in any action, suit or proceeding involving the Parties; provided that evidence that is otherwise admissible or discoverable shall not be rendered inadmissible or non-discoverable as a result of this Section 12.12(a). Either Party may seek equitable relief prior to this non-binding mediation to preserve the status quo pending the completion of such non-binding mediation. Except for such an action, suit or proceeding to obtain such equitable relief, neither Party may commence any other action, suit or proceeding with respect to the matters submitted to non-binding mediation until after the earlier to occur of the completion of the initial mediation session or 60 days after the date of delivering the written request for mediation. Mediation may continue after the commencement of an action, suit or proceeding, if the Parties so desire. The provisions of this Section 12.12(a) may be enforced by any court of competent jurisdiction, and the Party seeking enforcement shall be entitled to an award of all costs, fees and expenses, including attorney's fees, to be paid by the Party against whom enforcement is ordered.

(b) Binding Arbitration Regarding Intentional Breach Determinations. In the event that, after the 60th day after notice of Intentional Breach was delivered pursuant to the definition thereof (or such later date as the Party delivering such notice asserts represents the applicable cure period thereunder), the Parties are disputing whether or not an "Intentional Breach" has occurred and remains uncured, solely for purposes of determining whether such a Put/Call Event has occurred and for no other reason, such dispute as to whether an Intentional Breach has occurred and remains uncured (the "Binding Arbitrable Dispute") shall be governed by this Section 12.12(b). The Parties acknowledge and agree that (x) no other questions arising under this Agreement shall be submitted to arbitration, (y) the determination of the arbitrator in the Binding Arbitrable Dispute shall not be binding upon, evidence of, or otherwise relevant to the determination of any other dispute or other matter arising in connection with the Transaction Documents, and (z) the Binding Arbitrable Dispute shall not be subject to mediation pursuant to Section 12.12(a).

(i) The Party initiating the Binding Arbitrable Dispute shall first give written notice of the Binding Arbitrable Dispute to the other Party, describing such Binding Arbitrable Dispute in reasonable detail. Representatives of each Party, who have full authority to settle the Binding Arbitrable Dispute on behalf of such Party, shall meet at a mutually agreeable time and place within 10 days of the date of such notice in order to attempt to resolve the Binding Arbitrable Dispute in good faith. If the Binding Arbitrable

Dispute is not resolved by negotiation within five days of such meeting, either Party shall have the right to

submit the Binding Arbitrable Dispute to the Mediation Forum for binding arbitration.

(ii) A Binding Arbitral Dispute shall be resolved by arbitration in New York, New York, before a sole arbitrator, pursuant to the Comprehensive Arbitration Rules and Procedures of JAMS (or the applicable rules and procedures of the Mediation Forum, if the Mediation Forum is not JAMS) as then in effect or as otherwise agreed to by the Parties. If the Parties cannot agree upon the selection of an arbitrator, such arbitrator shall be an arbitrator appointed by the Mediation Forum from its panel of neutral arbitrators; provided that such arbitrator shall be a retired judge or an attorney with at least 15 years experience and experience as an arbitrator of large commercial cases.

(iii) The Parties shall use their reasonable best efforts to cause the arbitration to be completed, and to cause the arbitrator to render an award (which shall include an allocation of all of the costs of the arbitration, including the fees of the arbitrator and the reasonable attorneys' fees of the prevailing Party, against the Party who did not prevail), as soon as practicable and in any case not later than 60 days after the submission of the Binding Arbitrable Dispute. The arbitration award shall be in writing, shall state the reasons for such award and shall be final and binding upon the Parties and may be enforced in any court of competent jurisdiction.

Section 12.13 WAIVER OF JURY TRIAL. EACH OF THE PARTIES HEREBY WAIVES TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTERS (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREBY OR THE RELATIONSHIP ESTABLISHED HEREUNDER.

Section 12.14 Notices. All communications hereunder shall be in writing and shall be deemed to have been duly given if signed by the respective Persons giving them (and in the case of any corporation, the signature shall be by an appropriate officer thereof) and delivered by hand, or sent by registered mail, return receipt requested, or nationally recognized courier, or by facsimile to the following addresses:

If to Wachovia:

Wachovia Corporation
301 South College Street
Charlotte, North Carolina 28288
Attention: Donald A. McMullen, Jr.
Facsimile: (704) 383-2954
Telephone: (704) 383-9096

With a copy to:

Wachovia Corporation
301 South College Street
Charlotte, North Carolina 28288
Attention: Mark C. Treanor, Esq.
General Counsel
Facsimile: (704) 374-3425
Telephone: (704) 374-6375

And a copy (which copy shall not constitute notice) to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, New York 10017
Attention: Lee Meyerson, Esq.
Maripat Alpuche, Esq.
Facsimile: (212) 455-2502
Telephone: (212) 455-2000

If to Prudential:

The Prudential Insurance Company of America
751 Broad Street, 4th Floor
Newark, New Jersey 07102
Attention: Anthony F. Torre
Facsimile: (973) 367-8105
Telephone: (973) 802-6000

And a copy (which copy shall not constitute notice) to:

Debevoise & Plimpton
919 Third Avenue
New York, New York 10022
Attention: Stephen J. Friedman, Esq.
John M. Vasily, Esq.
Facsimile: (212) 909-6836
Telephone: (212) 909-6000

By written notice to the other Party, any Party may change the address to which notices shall be directed.

Section 12.15 Counterparts. This Agreement may be executed in any number of counterparts, and delivered by facsimile or otherwise, each of which shall be deemed an original of this Agreement and all of which together shall constitute one and the same instrument.

Section 12.16 Interpretation. Captions, headings and titles contained in this Agreement, Exhibits and the Schedules are for reference purposes only and shall not affect in

any way the meaning or interpretation of this Agreement, Exhibits or the Schedules. When a reference is made in this Agreement to Articles, Sections, Exhibits or Schedules, such reference shall be to an Article or Section of or Exhibit or Schedule to this Agreement unless otherwise indicated. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." The words "herein," "hereof," "hereunder" and words of similar import shall be deemed to refer to this Agreement as a whole, including the Exhibits and Schedules hereto, and not to any particular provision of this Agreement. Any pronoun shall include the corresponding masculine, feminine and neuter forms. Inclusion of information in the Schedules hereto shall not be construed as an admission of liability under any applicable Law or that such information contained therein is (x) material to the business, operations, assets, liabilities, financial condition or results of operations of a Party or its Subsidiaries or of any of the Contributed Businesses or (y) a representation or warranty that a potential consequence will occur as described.

[THE NEXT PAGE IS THE SIGNATURE PAGE]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed as of the date and year first above written.

WACHOVIA CORPORATION

By /s/ Donald A. McMullen, Jr.

Name: Donald A. McMullen, Jr.
Title: Senior Executive Vice President

PRUDENTIAL FINANCIAL, INC.

By /s/ Anthony F. Torre

Name: Anthony F. Torre
Title: Authorized Representative

EXHIBIT 10.21

- ---

AMENDED AND RESTATED

LIMITED LIABILITY COMPANY AGREEMENT

OF

WACHOVIA/PRUDENTIAL FINANCIAL ADVISORS LLC

DATED AS OF [_____], 2003

- ---

TABLE OF CONTENTS

<TABLE>
<CAPTION>

		PAGE
<S>		<C>
ARTICLE 1 DEFINITIONS		1
Section 1.1.	Defined Terms	1
ARTICLE 2 FORMATION OF COMPANY		10
Section 2.1.	Formation	10
Section 2.2.	Name; Office; Registered Agent	10
Section 2.3.	Purpose and Powers of the Company	11
Section 2.4.	Term	11
Section 2.5.	Filings; Qualification in Other Jurisdictions	11
Section 2.6.	Company Property	12
ARTICLE 3 CAPITAL CONTRIBUTIONS		12
Section 3.1.	Initial Capital Contributions	12
Section 3.2.	Additional Capital Contributions	12
Section 3.3.	Issuance of Membership Interests; Failure to Make Additional Capital Contributions	14
Section 3.4.	Treatment of Retail Brokerage Combination Transactions	15
Section 3.5.	Broker Contribution Debt	20
Section 3.6.	Formulas Used For Retail Brokerage Combination Transactions	21
Section 3.7.	Withdrawal of Capital	23
Section 3.8.	Capital Accounts	23
Section 3.9.	No Interest	24
ARTICLE 4 RIGHTS AND OBLIGATIONS OF MEMBERS		24
Section 4.1.	Members	24
Section 4.2.	No Management or Dissent Rights	24
Section 4.3.	Other Activities	24
Section 4.4.	No Right to Withdraw	25
Section 4.5.	Places of Meetings	25
Section 4.6.	Member Meetings	25
Section 4.7.	Notice of Meetings	25
Section 4.8.	Quorum	26
Section 4.9.	Voting	26
Section 4.10.	Action Without a Meeting; Telephonic Meetings	26
Section 4.11.	Record Date	27
Section 4.12.	Matters Requiring Member Approval	27
Section 4.13.	Reimbursements	29
Section 4.14.	Partition	29
Section 4.15.	Liability	29
ARTICLE 5 BOARD OF MANAGERS; OFFICERS; EXCULPATION; INDEMNITY		29
Section 5.1.	Board of Managers	29

</TABLE>

<TABLE>

<S>		<C>
Section 5.2.	Removal and Resignation	31
Section 5.3.	Meetings of the Board of Managers	31
Section 5.4.	Action Without a Meeting; Telephonic Meetings	32
Section 5.5.	Chairman of the Board of Managers	33
Section 5.6.	Officers; Designation and Election of Officers; Duties	33
Section 5.7.	Initial Business Plan; Budget and Forecast	34
Section 5.8.	Exculpation and Indemnification	35
Section 5.9.	Voting of Shares Held	38
Section 5.10.	Transactions with Affiliates	38
ARTICLE 6 ACCOUNTING, TAX, FISCAL AND LEGAL MATTERS		39
Section 6.1.	Fiscal Year	39

</TABLE>

Section 6.2. Bank Accounts....39
Section 6.3. Books of Account, Tax Matters....39
Section 6.4. Audits; Inspection of Books and Records....41
Section 6.5. Financial Information and Related Matters....42
Section 6.6. Tax Election....42
Section 6.7. Auditors....42
Section 6.8. Regulatory Compliance Liaison....42

ARTICLE 7 ALLOCATIONS AND DISTRIBUTIONS....43
Section 7.1. Allocations....43
Section 7.2. Distributions....46

ARTICLE 8 TRANSFERS....47
Section 8.1. Restrictions on Transfers; Additional Members....47

ARTICLE 9 DISSOLUTION, LIQUIDATION AND TERMINATION....49
Section 9.1. No Dissolution....49
Section 9.2. Events Causing Dissolution....49
Section 9.3. Bankruptcy of a Member....49
Section 9.4. Winding Up....49
Section 9.5. Distribution of Assets....50
Section 9.6. Distributions in Cash or in Kind....50
Section 9.7. Claims of the Members....51

ARTICLE 10 MISCELLANEOUS....51
Section 10.1. Compliance with Formation Agreement....51
Section 10.2. Performance of Obligations; Futher Assurances....51
Section 10.3. Amendment or Modification....51
Section 10.4. Waiver....51
Section 10.5. Entire Agreement....51
Section 10.6. Third Party Beneficiaries....52
Section 10.7. Non-Assignability; Binding Effect....52
Section 10.8. Severability....52
Section 10.9. Injunctive Relief....52
Section 10.10. Governing Law....52

Section 10.11. Submission to Jurisdiction....53
Section 10.12. Dispute Resolution....53
Section 10.13. WAIVER OF JURY TRIAL....53
Section 10.14. Notices....53
Section 10.15. Counterparts....55
Section 10.16. Interpretation....55

SCHEDULES

Schedule 4.1 - Members, Membership Interests and Percentage Interests

Schedule 5.1 - Managers

Schedule 5.6 - Officers

Schedule 5.7 - Initial Business Plan

AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT

This AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT of Wachovia/Prudential Financial Advisors LLC, a Delaware limited liability company (the "Company"), is made as of [_____], 2003, by and between the parties hereto, each as members of the Company (each of such parties, for so long as they remain members, and any other Person (as defined in Section 1.1) that may hereafter become a member of the Company in accordance with the provisions of this Agreement, a "Member" and collectively, the "Members").

RECITALS

A. Pursuant to a Retail Brokerage Company Formation Agreement, dated as of February 19, 2003 (as it may be amended from time to time, the "Formation Agreement"), by and between WACHOVIA CORPORATION, a North Carolina corporation ("Wachovia"), and PRUDENTIAL FINANCIAL, INC., a New Jersey corporation ("Prudential"), the parties thereto agreed to contribute certain assets and liabilities to the Company. Capitalized terms used but not defined in these recitals have the meanings given to them in Section 1.1.

B. Pursuant to the Formation Agreement, in consideration of their respective contributions, the parties to the Formation Agreement agreed that the

Company would initially issue an aggregate number of Membership Interests in the Company equal to 62% of the total Membership Interests to the Initial Wachovia Member, and an aggregate number of Membership Interests in the Company equal to 38% of the total Membership Interests to the Initial Prudential Member.

C. Wachovia has, as of the date hereof, executed and delivered a guarantee of payment and performance of the obligations of each Wachovia Member from time to time party hereto, and Prudential has, as of the date hereof, executed and delivered a guarantee of payment and performance of the obligations of each Prudential Member from time to time party hereto.

D. Concurrently with the execution and delivery hereof, the Closing contemplated by the Formation Agreement has been consummated.

ARTICLE 1

DEFINITIONS

Section 1.1. Defined Terms. In this Agreement, except where the context otherwise requires:

"Acquired Retail Brokerage Business" shall have the meaning set forth in the Formation Agreement.

"Act" shall mean the Delaware Limited Liability Company Act, 6 Del.C. Section 8-101, et seq., as amended from time to time.

"Acting Combining Member" shall mean a Member designated by a Combining Member to make all elections on behalf of the Affiliated Members of such Combining Member.

"Acting Non-Combining Member" shall mean a Member designated by a Non-Combining Member to make all elections on behalf of the Affiliated Members of such Non-Combining Member.

"Additional Capital Contribution" shall have the meaning set forth in Section 3.2(b).

"Additional Member" and "Additional Members" shall have the respective meanings set forth in Section 8.1(a).

"Affiliate" shall have the meaning set forth in the Formation Agreement, and "Affiliated" and "Affiliation" shall have a correlative meaning.

"Agreement" shall mean this Amended and Restated Limited Liability Company Agreement, as it may be amended or otherwise modified from time to time.

"Appraised Value" shall have the meaning set forth in the Formation Agreement, but shall not include any of the provisos thereto.

"Board of Managers" shall have the meaning set forth in Section 5.1(a).

"Broker Contribution Date" shall have the meaning set forth in Section 3.4(c).

"Broker Contribution Debt" shall mean indebtedness for borrowed money in an aggregate amount equal to the amount determined by applying the formula set forth in Section 3.6(b).

"Business" shall mean the retail securities brokerage business, including correspondent clearing and settlement activities, however conducted, including electronic, direct and discount securities brokerage activities, and, for clarity, shall include all businesses included in the Contributed Businesses (as defined in the Formation Agreement) and exclude all businesses included in the Excluded Businesses (as defined in the Formation Agreement) as of the date of the Formation Agreement.

"Business Day" shall mean each Monday, Tuesday, Wednesday, Thursday and Friday that is not a day on which banking institutions in Charlotte, North Carolina or New York, New York are authorized or obligated by law or executive order to close.

"Capital Account" shall have the meaning set forth in Section 3.8.

"Capital Contributions" shall mean contributions to the capital of the Company pursuant to Article 3.

"Carrying Value" shall mean, with respect to any asset of the Company, such asset's adjusted basis for federal income tax purposes, except that the Carrying Value of all

assets may be adjusted to equal their fair market values, in accordance with the rules set forth in Treasury Regulations Section 1.704-1(b)(2)(iv)(f), immediately prior to: (i) the date of the acquisition of any additional Membership Interest in the Company by any new or existing Member in exchange for more than a de minimis capital contribution; or (ii) the date of the distribution of more than a de minimis amount of assets (other than a pro rata distribution) to a Member. The Carrying Value of any asset of the Company distributed to any Member will be adjusted immediately prior to such distribution to equal its fair market value. The Carrying Value of any asset contributed by any Member (including upon formation of the Company) will be adjusted immediately prior to such contribution to equal its fair market value. In the case of any asset that has a Carrying Value that differs from its adjusted tax basis, Carrying Value will be adjusted by the amount of depreciation calculated for purposes of the definition of "Profit" and "Loss" rather than the amount of depreciation calculated for federal income tax purposes. Assets of the Company, as used herein, shall include both tangible and intangible assets.

"Certificate" shall have the meaning set forth in Section 2.1(a).

"Change in Tax Effect" means that the Acting Combining Member shall have received an opinion of nationally recognized outside tax counsel experienced in such matters, which counsel shall be Simpson Thacher & Bartlett or Debevoise & Plimpton or such other counsel reasonably acceptable to the Acting Non-Combining Member (with copies provided to the Company and to the Acting Non-Combining Member), to the effect that, as a result of (i) any amendment to, change in or announced prospective change in, the laws (or regulations thereunder) of the United States or any political subdivision or taxing authority thereof or therein, or (ii) any official administrative pronouncement or judicial decision interpreting or applying such laws (or regulations), there is more than an insubstantial risk that the Combining Member will be required to recognize gain for United States federal income tax purposes on the contribution of the Acquired Retail Brokerage Business to the Company, or to incur any other material and adverse consequences under the United States federal income tax laws in connection with a proposed Leveraged Contribution or Lookback Leveraged True-Up.

"Closing" shall have the meaning set forth in the Formation Agreement.

"Closing Date" shall have the meaning set forth in the Formation Agreement.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time (or any corresponding provisions of succeeding law), including effective date and transition rules (whether or not codified).

"Combining Member" shall mean any Member that is the Combining Party (as defined in the Formation Agreement) or an Affiliate of the Combining Party, as contemplated by Section 8.3 of the Formation Agreement.

"Company" shall have the meaning set forth in the preamble hereto.

"Company Leveraged Contribution" shall have the meaning set forth in Section 3.4(b).

"Designated Combining Member" shall mean one or more Members designated by the Acting Combining Member to make an Additional Capital Contribution, incur the Broker Contribution Debt, receive Membership Interests and/or take such other actions as are specified in Section 3.4 (or one or more Permitted Transferees of the Acting Combining Member designated by it to make such Additional Capital Contribution, incur such Broker Contribution Debt, receive such Membership Interests and/or take such other actions).

"Designated Non-Combining Member" shall mean one or more Members designated by the Acting Non-Combining Member to make an Additional Capital Contribution or other payment, receive Membership Interests and/or take such other actions as are specified in Section 3.4 (or one or more Permitted Transferees of the Acting Non-Combining Member which are designated by it to make such Additional Capital Contribution or other payment, receive such Membership Interests and/or take such other actions).

"Disposition Transaction" shall mean any sale, lease or other disposition (including by way of disposition or issuance to any third party of any equity interests in any Subsidiary of the Company) of, or any termination and liquidation, dissolution, winding-up or similar event affecting, assets of the Company or any Subsidiary of the Company or any equity investment by a Person not Affiliated with a Member (and other than a Subsidiary of the Company) in any Subsidiary of the Company.

"Distributable Cash" shall have the meaning set forth in Section 7.2(a).

"Excess Membership Interests" shall have the meaning set forth in Section 4.9(a).

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Exculpated Person" shall have the meaning set forth in Section 5.8(a).

"FA Notes" shall mean notes issued prior to the Closing by an employee employed in the Contributed Businesses (as defined in the Formation Agreement) to Wachovia, Prudential, or any of their Subsidiaries, which are payable in full to the holder thereof upon termination of such employee's employment.

"Final Closing Balance Sheet" shall have the meaning set forth in the Formation Agreement.

"Formation Agreement" shall have the meaning set forth in the recitals hereto.

"Indemnified Person" shall have the meaning set forth in Section 5.8(b).

"Initial Wachovia Member" shall mean [Wachovia Brokerage Holdings LLC], a Delaware limited liability company.

"Initial Prudential Member" shall mean Prudential Securities Incorporated, a Delaware corporation.

"Initial Tax Matters Member" shall mean the Initial Wachovia Member.

"Integration Period" shall mean the period from the Closing Date to the earlier to occur of (i) the second anniversary of the Closing Date or (ii) the date on which the platform of Wachovia Securities (as defined in the Formation Agreement) with respect to the Wachovia Contributed Business (as defined in the Formation Agreement) and the platform of Prudential Securities (as defined in the Formation Agreement) with respect to the Prudential Contributed Business (as defined in the Formation Agreement) are integrated and operating as a single platform.

"IRS" shall mean the United States Internal Revenue Service.

"Large Retail Broker" shall have the meaning set forth in the Formation Agreement.

"Large Retail Brokerage Combination" shall have the meaning set forth in the Formation Agreement.

"Leveraged Contribution" shall have the meaning set forth in Section 3.4(b).

"Liquidating Agent" shall have the meaning set forth in Section 9.4(a).

"Lookback Leveraged True-Up" shall have the meaning set forth in Section 3.4(e).

"Lookback Option" shall have the meaning set forth in Section 3.4(b).

"Lookback Period" shall have the meaning set forth in Section 3.4(b).

"Major Tax Item" shall have the meaning set forth in Section 6.3(e).

"Manager" shall have the meaning set forth in Section 5.1(a).

"Member" and "Members" shall have the respective meanings set forth in the preamble hereto.

"Member-Incurred Costs" shall have the meaning set forth in Section 3.2(e).

"Member Leveraged Contribution" shall have the meaning set forth in Section 3.4(b).

"Membership Interest" and "Membership Interests" shall mean the limited liability company interest(s) of a Member in the Company, as set forth opposite such Member's name on Schedule 4.1 hereto from time to time, including such Member's share of the Profits and Losses of the Company, and also the right of such Member to any and all of the benefits to which such Member may be entitled as provided in this Agreement and in the Act, together with the obligations of such Member to comply with all the provisions of this Agreement

and of the Act. The Company may issue whole or fractional Membership Interests.

"Non-Combining Member" shall mean any Member that is the Non-Combining Party (as defined in the Formation Agreement) or an Affiliate of the Non-Combining Party, as contemplated in Section 8.3 of the Formation Agreement.

"Non-De Minimis Disposition Transaction" shall mean any Disposition Transaction with respect to businesses, assets or Subsidiaries of the Company or its Subsidiaries that in the aggregate generated more than 5% of the Company's consolidated revenues during the prior fiscal year (or, in the case of a Disposition Transaction occurring during the fiscal year in which the Closing occurred, 5% of the Company's consolidated revenues on a pro forma basis for the calendar year preceding such fiscal year).

"One Time Costs" shall have the meaning set forth in the Formation Agreement.

"Percentage Interest" shall mean, with respect to a Member at any time, the quotient expressed as a percentage obtained by dividing (x) the number of Membership Interests owned by such Member at such time by (y) the number of Membership Interests owned by all Members at such time.

"Permitted Transferee" shall have the meaning set forth in the Formation Agreement.

"Person" shall have the meaning set forth in the Formation Agreement.

"Proceeding" shall have the meaning set forth in Section 5.8(d).

"Profit" and "Loss" shall mean, for each Tax Year or other period, an amount equal to the taxable income or loss of the Company for such year or period, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss or deduction required to be stated separately pursuant to Code Section 703(a)(1) will be included in taxable income or loss) and with the accounting method used by the Company for federal income tax purposes, with the following adjustments:

(i) any income of the Company that is exempt from U.S. federal income tax and not otherwise taken into account in computing Profit or Loss will be added to such taxable income or loss;

(ii) any expenditures of the Company described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Treasury Regulations Section 1.704-1(b)(2)(iv)(i) and not otherwise taken into account in computing Profit or Loss will be subtracted from such taxable income or loss;

(iii) if the Carrying Value of any asset of the Company differs from its adjusted tax basis for federal income tax purposes, any gain or loss resulting from a disposition of such asset will be calculated with reference to such Carrying Value;

(iv) upon an adjustment to the Carrying Value of any asset of the Company (other than an adjustment in respect of depreciation) pursuant to the definition of

Carrying Value, the amount of the adjustment will be included as gain or loss in computing such taxable income or loss;

(v) if the Carrying Value of any asset of the Company differs from its adjusted tax basis for federal income tax purposes, the amount of depreciation, amortization or cost recovery deductions with respect to such asset will for purposes of determining Profit and Loss be an amount which bears the same ratio to such Carrying Value as the federal income tax depreciation, amortization or other cost recovery deductions bears to such adjusted tax basis; and

(vi) notwithstanding any other provision of this definition, any items of income, gain, loss or deduction that are specially allocated pursuant to Section 7.1(c) will not be taken into account in computing Profit or Loss.

"Prudential" shall have the meaning set forth in the recitals hereto.

"Prudential Member" shall have the meaning set forth in the Formation Agreement.

"Prudential Permitted Transferee" shall have the meaning set forth in the Formation Agreement.

"Put/Call Exercise Notice" shall have the meaning set forth in the Formation Agreement.

"Requisite Membership Interests" shall mean:

(i) for so long as the Members consist solely of Wachovia Members and Prudential Members, both (A) Membership Interests of the Wachovia Members representing a majority of the aggregate number of Membership Interests of all of the Wachovia Members and (B) Membership Interests of the Prudential Members representing a majority of the aggregate number of Membership Interests of all of the Prudential Members; and

(ii) after the admission of any Third Party Member:

(A) with respect to any matter as to which Members have a right to vote or consent pursuant to this Agreement or the Act, other than the approval of any amendment or waiver of any provision of this Agreement described in clauses (B), (C), (D) or (F) through below, Membership Interests of Members whose Percentage Interests aggregate to at least 80%;

(B) with respect to the decision of the Members to dissolve the Company in accordance with Section 9.2 or the approval of any amendment or waiver to the dissolution provisions of Section 9.2, Membership Interests of Members whose Percentage Interests aggregate to at least 80%;

(C) with respect to the approval of any amendment or waiver of the provisions of Article 3, the Member consent rights set forth in Section 4.12, the exculpation and indemnification provisions in Section 5.8 in any manner materially adverse to the Members and their Affiliates, or the allocation and distribution provisions of Article 7 or Section 9.5(a)(or any definitions set forth in this Section 1.1 to the extent applied in such Sections), Membership Interests of Members whose Percentage Interests aggregate to at least 95%;

(D) with respect to the approval of any amendment or waiver of Section 10.3 (other than the proviso thereof) or the first sentence of Section 10.4 (or this definition of "Requisite Membership Interests"), Membership Interests of Members whose Percentage Interests aggregate to at least 95%;

(E) with respect to the approval of any amendment or waiver of any provision of this Agreement to establish any new class of Membership Interests or to cause the rights and preferences of the Membership Interests to not be equal (except as expressly provided in this Agreement as of the date hereof), Membership Interests of Members whose Percentage Interests aggregate to at least 95%;

(F) with respect to the approval of any amendment or waiver of Section 6.6 or any other provision of this Agreement that would result in the Company becoming subject to U.S. federal income tax as a corporation, Membership Interests of Members whose Percentage Interests aggregate to at least 95%; and

(G) with respect to the approval of the amendment or waiver of any other provision of this Agreement (other than as specified above), Membership Interests of Members whose Percentage Interests aggregate to more than 50%.

For purposes of this definition, "Membership Interests" (and the Percentage Interests related thereto) shall not include any Excess Membership Interests.

"Retail Brokerage Combination Transaction" shall have the meaning set forth in the Formation Agreement.

"Signing Review Accountants" shall have the meaning set forth in Section 6.3(b).

"Subsidiary" shall have the meaning set forth in the Formation Agreement.

"Tax Dispute Resolution Procedure" shall mean the submission of any disputed tax item to the Signing Review Accountants, who shall make a binding determination with respect to such tax item. Such determination shall be accompanied by a written legal analysis upon which such determination shall be based, concluding that it is at least more likely than not that the treatment of the tax item as determined by the Signing Review Accountants is correct. If more than one potential determination with respect to the same tax item could satisfy the requirement of the preceding sentence, the determination of the Signing

Review Accountants shall adopt the treatment supported by the highest level of substantive legal comfort. Notwithstanding the foregoing, if (in the judgment of the Signing Review Accountants) the treatment of any tax item would have a significant economic effect on only one Member (or one

Member and its Affiliates), the affected Member's position shall prevail if the Signing Review Accountants determine that there is a reasonable basis for such position.

"Tax Matters Member" shall have the meaning set forth in Section 6.3(f).

"Tax Year" shall mean (i) the fiscal year of the Company determined pursuant to Section 6.1 or (ii) if after the date of this Agreement, the taxable year is required by the Code to be a period other than the period described in clause (i), then each 12-month period that is the taxable year of the Company determined in accordance with the requirements of the Code; provided that in the case of a dissolution, Tax Year means the period from the day after the end of the most recently ended Tax Year until the dissolution of the Company, and for purposes of making allocations of Profit and Loss, Tax Year means any portion of a taxable year of the Company to the extent required to comply with Section 706 of the Code.

"Third Party Member" shall mean an Additional Member that is not a Wachovia Member or a Prudential Member or any of their respective Permitted Transferees.

"Transfer" shall mean a transfer, sale, assignment, pledge, hypothecation or gift of, creation of a security interest in or encumbrance or other lien on, or any other disposal (whether or not voluntary) of, any Membership Interest or beneficial interest therein.

"Transaction Documents" shall have the meaning set forth in the Formation Agreement.

"Treasury Regulations" shall have the meaning set forth in the Formation Agreement.

"Uncalled One Time Cost Amount" shall have the meaning set forth in Section 3.2(d).

"Unleveraged Contribution" shall have the meaning set forth in Section 3.4(b).

"Wachovia" shall have the meaning set forth in the recitals hereto.

"Wachovia/Company Master Agreement" shall have the meaning set forth in the Formation Agreement.

"Wachovia Member" shall have the meaning set forth in the Formation Agreement.

"Wachovia Permitted Transferee" shall have the meaning set forth in the Formation Agreement.

ARTICLE 2

FORMATION OF COMPANY

Section 2.1. Formation.

(a) The Members hereby acknowledge the formation of the Company as a limited liability company under and pursuant to the Act pursuant to the Certificate of Formation of the Company (the "Certificate"), dated [_____], 2003.

(b) The Company shall have one class of Membership Interests, which shall have equal rights and preferences in the assets of the Company except as otherwise expressly provided herein. A Membership Interest shall for all purposes be personal property. All Membership Interests in the Company are securities governed by Article 8 of the Uniform Commercial Code, as provided in Section 8-103(c) of the Uniform Commerical Code, as in effect from time to time in the State of Delaware.

(c) Upon the execution and delivery of this Agreement or a counterpart to this Agreement and a written agreement to be bound by the terms of the Formation Agreement applicable to it, each of the Persons named as a Member on Schedule 4.1 shall be admitted as a Member of the Company with a number of Membership Interests representing the Percentage Interests set forth on Schedule

4.1 hereto, with effect as of the date hereof. The Board of Managers may update Schedule 4.1 to reflect any changes in the Members, Membership Interests and Percentage Interests of the Members in accordance with the terms of this Agreement.

(d) The Members intend for the contributions to the Company by the Initial Wachovia Member and the Initial Prudential Member of the cash and other assets and liabilities specified in the Formation Agreement, and the admission of the Initial Wachovia Member and the Initial Prudential Member as Members on the date hereof, to be treated for federal income tax purposes as a contribution to the Company by the Initial Wachovia Member and the Initial Prudential Member of 62% and 38%, respectively, of the Company's assets. The Initial Wachovia Member and the Initial Prudential Member each hereby acknowledges the receipt on the date hereof of 620 Membership Interests and 380 Membership Interests, respectively.

(e) The rights, duties and liabilities of the Members shall be as provided in the Act, except as otherwise provided herein.

(f) This Agreement amends, restates and supersedes in its entirety the Limited Liability Company Agreement of the Company, dated as of [_____], 2003.

Section 2.2. Name; Office; Registered Agent.

(a) The name of the Company as of the date hereof is "Wachovia/Prudential Financial Advisors LLC", and its business shall be carried on in this name with such variations and changes as the Board of Managers deem necessary or appropriate in order to comply with requirements of the jurisdictions in which the Company's operations are conducted. The Board of Managers shall have the power at any time to change the name of the Company at its sole

discretion; provided, however, that prior to the end of the Integration Period, no such variation or change shall be made if it would result in the Company operating under a name that does not include "Wachovia/Prudential", unless such variation or change shall have been unanimously approved by the Board of Managers.

(b) The principal place of business of the Company shall be located in Richmond, Virginia, which location may be changed at any time by the Board of Managers. The Company shall also have additional offices as shall be determined, from time to time, by the Board of Managers. The Company's registered agent and office in Delaware shall be Corporation Service Company, 2711 Centerville Road, Suite 400, Wilmington, Delaware 19807. At any time, the Board of Managers may designate another registered agent and/or registered office.

Section 2.3. Purpose and Powers of the Company.

(a) The Company is formed for the object and purpose of, and the nature of the business to be conducted and promoted by the Company is, engaging directly, or through its Subsidiaries, in the Business, without geographic restriction of any kind, and in any and all activities necessary, desirable or incidental thereto. In addition, subject to Section 4.12, the Company may engage in such other businesses as the Board of Managers may determine.

(b) Subject to any specific limitation set forth in this Agreement, the Company shall have the power and authority to take any and all actions that limited liability companies may take under the Act and that are necessary, appropriate, proper, advisable, incidental or convenient to or for the furtherance of the purpose set forth in this Section 2.3.

(c) The Company shall do all things necessary to maintain its limited liability company existence separate and apart from each Member and any Affiliate of any Member, including holding regular meetings of the Board of Managers and maintaining its books and records on a current basis separate from that of any Affiliate of the Company or any other Person.

Section 2.4. Term. The term of the Company shall have commenced on the date the Certificate was filed in the office of the Secretary of State of the State of Delaware and shall continue in full force and effect in perpetuity; provided that the Company may be dissolved in accordance with the provisions of this Agreement and the Act.

Section 2.5. Filings; Qualification in Other Jurisdictions. The Company shall prepare, following the execution and delivery of this Agreement, any documents required to be filed or, in the Board of Managers' view, appropriate for filing under the Act, and the Company shall cause each such document to be filed in accordance with the Act, and, to the extent required by federal, state, local or foreign law, to be filed and recorded, and/or notice thereof to be published, in the appropriate place in each jurisdiction in which the Company may hereafter establish a place of business. The Board of Managers

may cause the Company to be qualified, formed or registered under assumed or fictitious name statutes or similar laws in any jurisdiction in which the Company transacts business where the Company is not currently so qualified, formed or registered. Each Manager and officer of the Company, as an authorized person within the meaning of the Act, shall execute, deliver and file any such documents (and any amendments

and/or restatements thereof) necessary for the Company to accomplish the foregoing. The Board of Managers may appoint any other authorized persons to execute, deliver and file any such documents.

Section 2.6. Company Property. All property of the Company, both tangible and intangible, shall be deemed to be owned by the Company as an entity. A Member has no interest in specific Company property.

ARTICLE 3

CAPITAL CONTRIBUTIONS

Section 3.1. Initial Capital Contributions. The Company hereby acknowledges the receipt of contributed capital pursuant to the transactions described in the Formation Agreement.

Section 3.2. Additional Capital Contributions.

(a) No Member shall be required or permitted to make any additional Capital Contributions to the Company except as provided in this Article 3.

(b) Members may, in the case of clause (i) below, and shall, in the case of clauses (ii), (iii) and (iv) below, from time to time make additional Capital Contributions to the Company (each, an "Additional Capital Contribution"):

(i) at such time and in such amounts as the Board of Managers may determine to offer to the Members;

(ii) in connection with the contribution of an Acquired Retail Brokerage Business in accordance with Section 3.4;

(iii) in connection with the payment and satisfaction of One Time Costs to the extent described in Section 3.2(d) below; and

(iv) in connection with a deemed Capital Contribution in accordance with Section 7.2(a)(ii)(B).

(c) If the Board of Managers determines that the Members shall be offered the opportunity to make Additional Capital Contributions in accordance with Section 3.2(b)(i), the Board of Managers shall offer to the Members by written notice the opportunity to make Additional Capital Contributions pro rata in proportion to their Percentage Interests immediately prior to the time of contribution in order to maintain their respective Percentage Interests. Each Member shall have 15 Business Days following delivery of such notice to notify the Board of Managers in writing of its decision whether or not to make such Additional Capital Contribution, in whole or in part. Thereafter, the Board of Managers shall notify each Member of the amount of its required Additional Capital Contribution and the date such Additional Capital Contribution shall be due. The election by any Member not to exercise its rights under this Section 3.2(c) to

make an Additional Capital Contribution in any one instance shall not affect its rights as to any subsequent proposed Additional Capital Contribution.

(d) The Board of Managers shall from time to time determine the amount of One Time Costs (the "Uncalled One Time Cost Amount") that (x) the Company has actually incurred for which no Capital Contribution has been previously made by the Members and (y) the Board of Managers estimates in good faith that the Company will incur in the next 60 days. Upon identifying such Uncalled One Time Cost Amounts, the Board of Managers shall call on each Member to make an Additional Capital Contribution in the amount of the Uncalled One Time Cost Amount multiplied by such Member's Percentage Interest as of the date of such notice by delivering a notice to each Member, which notice shall identify the relevant One Time Costs and the Uncalled One Time Cost Amount. Each Member shall pay its share of such Uncalled One Time Cost Amount within 15 Business Days following delivery of such written notice, by wire transfer of immediately available funds to a bank account identified by the Company in such written notice. If at any time the Board determines that it has made calls in respect of One Time Costs in excess of actual One Time Costs, and it is unlikely that any additional One Time Costs will be incurred or required in the next 90 days, the Company shall return the excess amount to the Members by redeeming and

cancelling a number of Membership Interests issued in respect thereof equitably in proportion to the Capital Contributions actually made by each such Member with respect to such Uncalled One Time Cost Amounts.

(e) If at any time a Member has incurred any One Time Costs ("Member-Incurred Costs") which were not otherwise reimbursed pursuant to this Section 3.2(e), the Member shall submit to the Company (with a copy to each of the other Members) an itemized schedule of such Member-Incurred Costs together with such supporting detail as the Company may reasonably request. Within 15 Business Days after receipt of such schedule and supporting detail, the Company shall reimburse such Member for such Member-Incurred Costs by wire transfer of immediately available funds to a bank account designated by such Member. Following such payment, the amount of such Member-Incurred Costs shall be treated as an Uncalled One Time Cost Amount and shall be subject to the Capital Contribution provisions of Section 3.2(d).

(f) Additional Capital Contributions shall be made (i) in the case of Section 3.2(b)(i) or (iii), in cash or, with the approval of the Board of Managers, in assets or other properties and (ii) in the case of Section 3.2(b)(ii), through the contribution of either assets or equity interests in an entity that is disregarded for federal income tax purposes (or such other equity interests that the Non-Combining Member may agree to be so contributed) of the relevant Acquired Retail Brokerage Business or, in the case of the Non-Combining Member, in cash as provided in Section 3.4. Except as otherwise provided in Section 3.4, the value of all properties and assets contributed to the Company shall be determined as of the date of contribution in accordance with Section 3.2(g).

(g) The "fair market value" of any non-cash Additional Capital Contributions (other than with respect to an Acquired Retail Brokerage Business) to be valued pursuant to this Section 3.2(g) shall be the price that an unrelated third party would pay if it were to acquire in an arm's-length transaction the property proposed to be so valued as determined by the unanimous vote of the Board of Managers in accordance with this Section 3.2(g). The Managers shall attempt in good faith to agree on any such fair market value and on the Appraised Value of the

Company whenever required for purposes of Section 3.3 (and, when acting for such purpose, the Board of Managers shall be deemed to be the "Appraiser" referred to in the definition of "Appraised Value"). If the Managers shall have failed to agree upon any such fair market value within 30 days after any such non-cash Additional Capital Contribution is proposed to be made, such fair market value and/or Appraised Value shall be determined by a nationally recognized independent investment banking firm selected by the Board of Managers (with the approval of at least one Manager appointed by the Prudential Members) and such determination shall be accepted and adopted as the unanimous determination of the Board of Managers.

Section 3.3. Issuance of Membership Interests; Failure to Make Additional Capital Contributions.

(a) Except as provided in Section 3.4, whenever Additional Capital Contributions are made, each Member making such Additional Capital Contribution shall be issued a number of additional Membership Interests equal to:

(A / B) * C

where:

A = the amount of cash comprising such Additional Capital Contribution plus the fair market value of any non-cash Additional Capital Contribution determined in accordance with Section 3.2(g)

B = the Appraised Value of the Company immediately prior to the contribution of such Additional Capital Contribution, as determined in accordance with Section 3.2(g)

C = the total number of Membership Interests outstanding immediately prior to such Additional Capital Contribution (assuming that all contributions are made by all Members simultaneously with respect to such Additional Capital Contribution).

(b) If any Member (i) fails to contribute to the Company all or any portion of an Additional Capital Contribution agreed upon or required to be made by such Member in accordance with Section 3.2(b)(i) or (iii) within 10 Business Days after the date scheduled for such Additional Capital Contribution, or (ii) elects not to exercise its rights in full to make an Additional Capital Contribution pursuant to Section 3.2(c) within the 15 Business Day period referred to therein, then in any such case the other Members shall be entitled to make such Additional Capital Contribution (ratably in accordance with their

respective Percentage Interests), and each Member making such Additional Capital Contribution shall be issued a number of additional Membership Interests in accordance with Section 3.3(a).

(c) The Company shall not issue new Membership Interests to any Third Party unless such Interests shall have been offered to the existing Members. Any such Membership Interests not subscribed by the then-current Members shall be offered to the remaining Members in accordance with their relative Percentage Interests. Such unsubscribed Membership Interests may be offered by the Company only if the Members shall not have first subscribed therefor in

accordance with this Section and any applicable approvals set forth in Section 4.12(a)(iv) shall have been obtained.

Section 3.4. Treatment of Retail Brokerage Combination Transactions.

(a) Generally. As contemplated by Section 8.3 of the Formation Agreement in connection with a Retail Brokerage Combination Transaction, the Members shall take the actions specified in this Section 3.4 in connection with the contribution of an Acquired Retail Brokerage Business to the Company.

(b) Elections and Notices.

(i) On or before the 20th Business Day following the receipt of the notice provided by the Combining Party to the Non-Combining Party (each as defined in the Formation Agreement) with respect to a Retail Brokerage Combination Transaction pursuant to Section 8.3(c)(i) of the Formation Agreement (or such later date as is set forth in the proviso to Section 8.3(c)(ii) of the Formation Agreement), unless (x) the Non-Combining Member has delivered a Put/Call Exercise Notice pursuant to Section 9.3 of the Formation Agreement, or (y) the Combining Member has notified the Company and the Non-Combining Member that the Acquired Retail Brokerage Business is an Excludible Retail Brokerage Business (as defined in the Formation Agreement) and the Company and the Non-Combining Member have not consented to the contribution of such Excludible Retail Brokerage Business to the Company, the Acting Non-Combining Member shall deliver a notice to the Company and the Combining Members in which the Acting Non-Combining Member shall state its election to:

(A) cause the Designated Non-Combining Member to make either an Additional Capital Contribution to the Company or a payment to the Designated Combining Member pursuant to Section 3.4(d)(i) or (ii), as applicable (depending upon whether the Acting Combining Member elects to make a Leveraged Contribution or an Unleveraged Contribution of the Acquired Retail Brokerage Business);

(B) make no such Additional Capital Contribution or payment, in which case the aggregate Percentage Interests of the Non-Combining Members will be reduced as a result of the contribution of such Acquired Retail Brokerage Business and the issuance of additional Membership Interests to the Designated Combining Member pursuant to Section 3.4(c);

(C) in the event the Retail Brokerage Combination Transaction is scheduled to be consummated prior to the end of the Integration Period, cause the Designated Combining Member to delay the contribution of the Acquired Retail Brokerage Business until the end of the Integration Period; or

(D) in the case of a Large Retail Brokerage Combination, exercise an option (the "Lookback Option") to delay its election among the foregoing alternatives for a period (the "Lookback Period") of two years following the Broker Contribution Date.

If no such notice is delivered by the date specified above, the Acting Non-Combining Member shall be deemed to have elected clause (B).

(ii) In the event the Acting Non-Combining Member makes the election specified in clause (i)(A) above, within 20 Business Days after such election by the Acting Non-Combining Member (and in any case at least five Business Days prior to the consummation of the Retail Brokerage Combination Transaction) the Acting Combining Member shall deliver a notice to the Company and the Non-Combining Members, in which the Acting Combining Member shall state its election to:

(A) cause the Designated Combining Member to contribute the Acquired Retail Brokerage Business to the Company on a leveraged basis (a "Leveraged Contribution") pursuant to Section

3.4(c) and either (1) incur the Broker Contribution Debt itself (a "Member Leveraged Contribution") or (2) cause the Company to incur the Broker Contribution Debt (a "Company Leveraged Contribution"); or

(B) cause the Designated Combining Member to contribute the Acquired Retail Brokerage Business to the Company pursuant to Section 3.4(c) without the incurrence by either the Combining Members or the Company of any Broker Contribution Debt (an "Unleveraged Contribution").

(iii) If the Acting Non-Combining Member makes the election set forth in Section 3.4(b)(i)(C) above, on or before the 90th day prior to the end of the Integration Period, the Acting Non-Combining Member shall deliver a notice to the Company and the Combining Members in which the Acting Non-Combining Member shall state its election to:

(A) cause the Designated Non-Combining Member to make either an Additional Capital Contribution to the Company or a payment to the Designated Combining Member pursuant to Section 3.4(d)(i) or (ii), as applicable (depending upon whether the Acting Combining Member elects to make a Leveraged Contribution or an Unleveraged Contribution of the Acquired Retail Brokerage Business pursuant to Section 3.4(c)); or

(B) make no such Additional Capital Contribution or payment, in which case the aggregate Percentage Interests of the Non-Combining Members will be reduced as a result of the contribution of such Acquired Retail Brokerage Business and the issuance of additional Membership Interests to the Combining Members pursuant to Section 3.4(c).

If no such notice is delivered by the date specified above, the Acting Non-Combining Member shall be deemed to have elected clause (B).

(iv) If the Acting Non-Combining Member makes the election specified in Section 3.4(b)(i)(D) above, on or before the 90th day prior to the end of the Lookback Period, the Acting Non-Combining Member shall deliver a notice to the Company and

the Combining Members in which the Acting Non-Combining Member shall state its election to:

(A) cause the Designated Non-Combining Member to make either an Additional Capital Contribution to the Company or a payment to the Designated Combining Member pursuant to Section 3.4(e)(ii), (iii) or (iv), as applicable (depending upon whether the Acting Combining Member elects to make a Lookback Leveraged True-Up pursuant to Section 3.4(e)(i));

(B) make no such Additional Capital Contribution or payment, in which case the aggregate Percentage Interests of the Non-Combining Members will remain at their then-current diluted level; or

(C) if the Acting Non-Combining Member is a Prudential Member, deliver a Put/Call Exercise Notice in accordance with Section 9.3 of the Formation Agreement with respect to the Large Retail Brokerage Combination subject to the Lookback Option.

If no such notice is delivered by the date specified above, the Acting Non-Combining Member shall be deemed to have elected clause (B).

(c) Contribution of Acquired Retail Brokerage Business by Combining Member. On the date of consummation of a Retail Brokerage Combination Transaction or as soon thereafter as practicable:

(i) The Designated Combining Member shall contribute, or cause to be contributed, the Acquired Retail Brokerage Business to the Company (the date of such contribution, the "Broker Contribution Date"); and

(ii) The Company shall issue an aggregate number of Membership Interests as calculated pursuant to Section 3.6(a) to the Designated Combining Member and shall comply with Section 3.5 with respect to the Broker Contribution Debt, if applicable.

Notwithstanding the foregoing, in the event the Acting Non-Combining Member makes the election set forth in Section 3.4(b)(i)(C), the Combining Members shall, in accordance with the Non-Combining Member's election, delay the contribution of the Acquired Retail Brokerage Business and retain the Acquired Retail Brokerage Business outside of the Company and its Subsidiaries until the Integration Period has elapsed, and within 20 Business Days after such election

by the Acting Non-Combining Member (and in any case at least five Business Days prior to the consummation of the Retail Brokerage Combination Transaction) the Acting Combining Member shall deliver a notice to the Company and the Non-Combining Members of its election pursuant to Section 3.4(b)(ii). In such circumstances, the Combining Members shall not be in violation of this Article 3 or Section 8.3 of the Formation Agreement during the Integration Period.

(d) Additional Capital Contribution or Payment by Designated Non-Combining Member. On the Broker Contribution Date, in the event the Acting Non-Combining Member

made the election set forth in clause Section 3.4(b)(i)(A) or Section 3.4(b)(iii)(A), as the case may be, the Designated Non-Combining Member shall take one of the following actions:

(i) Contribution to the Company. In a Leveraged Contribution, (A) make an Additional Capital Contribution to the Company in cash by wire transfer of immediately available funds in an aggregate amount as calculated by Section 3.6(b) (or such lesser amount as the Acting Non-Combining Member determines in its sole discretion), in exchange for which (B) the Company shall issue to the Designated Non-Combining Member an aggregate number of Membership Interests as calculated pursuant to Section 3.6(c) and comply with Section 3.5 with respect to the Broker Contribution Debt; or

(ii) Payment to the Designated Combining Member. In an Unleveraged Contribution, (A) make a payment to the Designated Combining Member in cash by wire transfer of immediately available funds in an aggregate amount as calculated pursuant to Section 3.6(b) (or such lesser amount as the Acting Non-Combining Member determines in its sole discretion), in exchange for which (B) such Designated Combining Member shall assign and deliver to the Designated Non-Combining Member an aggregate number of Membership Interests as calculated in Section 3.6(c).

(e) Events Upon Lookback Option. If the Acting Non-Combining Member exercises its Lookback Option, (i) the Designated Combining Member nevertheless shall contribute, or shall cause the contribution of, the Large Retail Broker to the Company pursuant to an Unleveraged Contribution, in exchange for which (ii) the Company shall issue the Membership Interests to the Designated Combining Member as of the Broker Contribution Date in accordance with Section 3.4(c) as if the Acting Non-Combining Member elected to take no action as described in Section 3.4(b)(i)(B). Thereafter, if the Acting Non-Combining Member makes the election referred to in Section 3.4(b)(iv)(A), the Members shall take the following actions:

(i) Election by Acting Combining Member to Incur Debt. Within 20 Business Days after such election by the Acting Non-Combining Member, the Acting Combining Member shall deliver a notice to the Company and the Acting Non-Combining Member stating its election whether or not to cause the Company to incur Broker Contribution Debt at the end of the Lookback Period in connection with the Designated Non-Combining Member's Additional Capital Contribution (a "Lookback Leveraged True-Up");

(ii) Issuance of Membership Interests. If the Acting Combining Member elects to effect a Lookback Leveraged True-Up, (A) the Designated Non-Combining Member shall, at the end of the Lookback Period, make an Additional Capital Contribution to the Company in cash by wire transfer of immediately available funds in an aggregate amount as calculated pursuant to Section 3.6(b) (or such lesser amount as the Acting Non-Combining Member determines in its sole discretion), in exchange for which (B) the Company shall issue to the Designated Non-Combining Member an aggregate number of Membership Interests as calculated pursuant to Section 3.6(c). In addition, the Company shall incur the Broker Contribution Debt, distribute the proceeds

therefrom in accordance with Section 3.5(c) and otherwise comply with the other provisions of Section 3.5 with respect thereto;

(iii) Payment to the Designated Combining Member. If the Acting Combining Member does not elect to effect a Lookback Leveraged True-Up, (A) the Designated Non-Combining Member shall make a payment to the Designated Combining Member in cash by wire transfer of immediately available funds in an aggregate amount as calculated pursuant to Section 3.6(b) (or such lesser amount as the Acting Non-Combining Member determines in its sole discretion), in exchange for which (B) the Designated Combining Member shall assign and deliver to the Designated Non-Combining Member an aggregate number of Membership Interests as calculated pursuant to Section 3.6(c); and

(iv) Other True-Up Payments. Whether or not a Lookback Leveraged True-Up is elected by the Acting Combining Member, (A) the Designated Non-Combining Member shall be entitled to make a payment to the Designated Combining Member in cash by wire transfer of immediately available funds in an aggregate amount (or such lesser amount as the Acting Non-Combining Member determines in its sole discretion) equal to the sum of all of the differences between (x) each Additional Capital Contribution (and/or payment to a Designated Combining Member pursuant to this Section 3.4) during the Lookback Period (and prior to the Additional Capital Contribution or payment provided in this Section 3.4(e)) which the Designated Non-Combining Member and its Affiliated Members would have been able to have made had the Acting Non-Combining Member made the election in Section 3.4(b)(i)(A) and (y) each Additional Capital Contribution (and/or payment to a Designated Combining Member pursuant to this Section 3.4) during the Lookback Period (and prior to the Additional Capital Contribution or payment provided in this Section 3.4(e)) which the Designated Non-Combining Member and its Affiliated Members were then actually entitled to make, in exchange for which (B) the Designated Combining Member shall assign and deliver to the Designated Non-Combining Member an aggregate number of Membership Interests represented by such sum (or such proportionately smaller number of Membership Interests, as the case may be), based on, with respect to each such Additional Capital Contribution, the valuation of the Company that was determined pursuant to Section 3.6(d) at the time of each such Additional Capital Contribution; provided that if the then Designated Non-Combining Member and its Affiliated Members failed to make their then full amount of any such Additional Capital Contribution (and/or payment to a Designated Combining Member pursuant to this Section 3.4) that they were then entitled to make during the Lookback Period, the aggregate payment that the Designated Non-Combining Member is entitled to make pursuant to this clause (iv) and the aggregate number of Membership Interests to which such Designated Non-Combining Member is entitled to receive pursuant to this clause (iv) with respect to each such Additional Capital Contribution (and/or payment to a Designated Combining Member pursuant to this Section 3.4) that occurred during the Lookback Period, shall be proportionately reduced based on the ratio that the amount of such Additional Capital Contribution (and/or payment to a Designated Combining Member pursuant to this Section 3.4) that was actually then made by such Designated Non-Combining Member and its Affiliated Members bears to the amount of their then full amount of such

Additional Capital Contribution (and/or payment to a Designated Combining Member pursuant to this Section 3.4) that they were then entitled to make.

(f) No Retroactive Effect. If an Acting Non-Combining Member elects to make an Additional Capital Contribution or a payment to the Designated Combining Member pursuant to Section 3.4(e)(ii), (iii) and/or (iv) at the end of the Lookback Period, the increase in the aggregate Percentage Interests of the Designated Non-Combining Member as a result of such contribution or payment shall not be given retroactive effect, and such Designated Non-Combining Member shall not be entitled to any distributions foregone during the Lookback Period.

(g) Change in Tax Effect. If after the Closing Date, a Change in Tax Effect occurs, the Combining Member may in its sole discretion elect to contribute the applicable Acquired Retail Brokerage Business to the Company by means of a Leveraged Contribution in which the amount of Broker Contribution Debt is such lesser amount (but not less than $0) as will permit the Designated Combining Member to complete the contribution of the applicable Acquired Retail Brokerage Business to the Company and the other transactions contemplated by Section 3.4(d)(i) or (e)(ii) without any of the adverse consequences referred to in the definition of Change in Tax Effect. Prior to taking such action, the Acting Combining Member shall consult with the Acting Non-Combining Member (for a period not to exceed 30 days) to determine in good faith whether there are alternative methods to accomplish the purposes of this Section 3.4 without any of the adverse consequences referred to in the definition of Change in Tax Effect, and if available, the Combining Members will use their reasonable best efforts to cooperate with the Non-Combining Members to implement such alternative.

(h) Future Events. The Company and the Members shall cooperate with each other to the extent necessary to make such adjustments, if any, as are necessary in order to preserve the intent and effect of Sections 3.4, 3.5 and 3.6 in connection with the admission of a Third Party Member.

Section 3.5. Broker Contribution Debt.

(a) Broker Contribution Debt shall have such terms as reasonably requested by the Acting Combining Member and approved by the Board of Managers (such approval not to be unreasonably withheld or delayed) such that it is treated as "partner nonrecourse debt" as defined in Treasury Regulations Section 1.704-2(b)(4) with respect to which only the Designated Combining Member "bears the economic risk of loss" under Treasury Regulations Section 1.752-2, and the

terms of the Broker Contribution Debt shall provide that principal shall not be amortized for at least two years after the date of incurrence. The other terms of the Broker Contribution Debt shall be determined in accordance with Section 5.10, if applicable.

(b) If the Acting Non-Combining Member elected to cause an Additional Capital Contribution to be made pursuant to Section 3.4(b)(i)(A) or Section 3.4(b)(iii)(A), as the case may be, and such Additional Capital Contribution is so made, then on the Broker Contribution Date:

(i) In the case of a Member Leveraged Contribution, (A) the Designated Combining Member shall borrow the Broker Contribution Debt from one of its Affiliates or a third party on the Broker Contribution Date immediately prior to the contribution of the Acquired Retail Brokerage Business to the Company, (B) the Designated Combining Member shall retain the proceeds of the Broker Contribution Debt, and (C) the Broker Contribution Debt will be assigned to, and assumed by, the Company concurrently with the contribution of such Acquired Retail Brokerage Business to the Company; or

(ii) In the case of a Company Leveraged Contribution, the Company shall (A) borrow the Broker Contribution Debt from one of the Designated Combining Member's Affiliates or a third party on the Broker Contribution Date concurrently with the contribution of the Acquired Retail Brokerage Business to the Company, (B) promptly distribute the proceeds of the Broker Contribution Debt to the Designated Combining Member, and (C) otherwise retain the Broker Contribution Debt in accordance with its terms.

(c) If the Acting Combining Member exercises its right to cause a Lookback Leveraged True-Up, subject to the Designated Non-Combining Member making its Additional Capital Contribution pursuant to Section 3.4(e)(ii), the Company shall (i) borrow the Broker Contribution Debt from one of the Combining Member's Affiliates or a third party at the end of the Lookback Period, (ii) redeem from, and cancel a number of Membership Interests held by, the Designated Combining Member as calculated by Section 3.6(c) in exchange for the distribution of the proceeds of the Broker Contribution Debt to the Designated Combining Member, and (iii) otherwise retain the Broker Contribution Debt in accordance with its terms.

(d) The Company shall apply the amount of the Additional Capital Contribution made to the Company by the Designated Non-Combining Member in connection with a Company Leveraged Contribution or Lookback Leveraged True-Up as follows:

(i) first, if the Designated Non-Combining Member is an Affiliate of Prudential, to pay the principal and accrued interest of the Prudential Note (as such term is defined in the Formation Agreement) to the extent permitted under the Prudential Note;

(ii) second, to pay third party indebtedness of the Company and its Subsidiaries (other than the Broker Contribution Debt); and

(iii) third, in such amounts and in such a manner as determined by the Board of Managers, for (1) the operations of the Company and its Subsidiaries, (2) investment in short-term, investment grade securities, or (3) loans to all Members in accordance with their respective Percentage Interests or as otherwise agreed by the Members.

Section 3.6. Formulas Used For Retail Brokerage Combination Transactions.

(a) Membership Interests Issuable to Designated Combining Member. The aggregate number of Membership Interests issuable by the Company to the Designated Combining Member is equal to:

((A + B - C) / D) * E

where:

A = the Appraised Value of the Acquired Retail Brokerage Business

B = One Time Costs incurred by the Combining Member and its Affiliates with respect to the acquisition of the Acquired Retail Brokerage Business

C = the amount of the Broker Contribution Debt (which, in the case of an Unleveraged Contribution, shall be zero)

D = the Appraised Value of the Company on the Broker Contribution Date immediately prior to the contribution of the Acquired Retail Brokerage Business (and assuming no incurrence of Broker Contribution Debt)

E = the total number of Membership Interests outstanding on the Broker Contribution Date immediately prior to the contribution of the Acquired Retail Brokerage Business.

(b) Designated Non-Combining Member's Additional Capital Contribution and Other Payments. The aggregate amount that a Designated Non-Combining Member may make in Additional Capital Contributions to the Company or pay to the Designated Combining Member is:

(A + B) * C

where

A = the Appraised Value of the Acquired Retail Brokerage Business (which, in the case of a Lookback Leveraged True-Up, shall be as of the Broker Contribution Date immediately prior to the contribution of the Acquired Retail Brokerage Business to the Company)

B = One Time Costs incurred by the Combining Member and its Affiliates with respect to the acquisition of the Acquired Retail Brokerage Business

C = the aggregate Percentage Interests of the Designated Non-Combining Member and its Affiliated Members on the Broker Contribution Date immediately prior to the contribution of the Acquired Retail Brokerage Business

or such lesser amount as the Designated Non-Combining Member determines in its sole discretion.

(c) Membership Interests Issuable or Deliverable to Designated Non-Combining Member or Redeemable from Designated Combining Member. The aggregate number of Membership Interests that are either (i) issuable by the Company to the Designated Non-Combining

Member or deliverable by a Designated Combining Member to the Designated Non-Combining Member or (ii) redeemable from the Designated Combining Member by the Company, as applicable, is equal to:

(A / B) * C

where:

A = the amount of the Additional Capital Contribution made by the Designated Non-Combining Member pursuant to Sections 3.4(d)(i) or (e)(ii) or payment to the Designated Combining Member pursuant to Section 3.4(d)(ii) or (e)(iii) or the amount of Broker Contribution Debt the proceeds of which are to be used for the redemption pursuant to Section 3.5(c), as applicable

B = the Appraised Value of the Company on the Broker Contribution Date immediately prior to giving effect to the contribution of the Acquired Retail Brokerage Business (and assuming no incurrence of Broker Contribution Debt)

C = the total number of Membership Interests outstanding on the Broker Contribution Date immediately prior to the contribution of the Acquired Retail Brokerage Business.

(d) Valuations. All valuations (including Appraised Value) required by this Section 3.6 shall be determined in accordance with Article 11 of the Formation Agreement and, if not specified therein, in accordance with this Agreement.

Section 3.7. Withdrawal of Capital. (a) No Member shall be entitled to withdraw any part of its Capital Contributions in the Company or to receive any distribution from the Company, except as expressly provided herein.

(b) No Member shall have any liability for the return of the Capital Contributions of any other Member. No Member shall be required to make up a negative balance in its Capital Account.

(c) No Member shall have priority over any other Member either as to the return of the amount of such Member's Capital Contributions or, except as otherwise provided in Section 7.1, as to any allocation of any item of income, gain, loss, deduction or credit of the Company.

Section 3.8. Capital Accounts. The Company shall establish and maintain on its books and records a capital account for each Member (a "Capital Account") in accordance with Treasury Regulations Section 1.704-1(b)(2)(iv). Each Member's Capital Account shall thereafter be (a) increased by the amount of cash contributed to the Company by such Member, the fair market value of any property contributed to the Company by such Member (as determined pursuant to this Agreement) and the amount of Profits allocated to such Member in accordance with such Member's Percentage Interest pursuant to Article 7 hereof, and (b)

decreased by the amount of cash distributed by the Company to such Member, the fair market value of any asset distributed by the Company to such Member (as determined pursuant to this Agreement) and the amount of Losses allocated to such Member in accordance with such Member's Percentage Interest pursuant to Article 7 hereof.

Section 3.9. No Interest. No interest shall be paid on Capital Contributions or on the balance in each Member's Capital Account.

ARTICLE 4

RIGHTS AND OBLIGATIONS OF MEMBERS

Section 4.1. Members. The Members of the Company, and their respective numbers of Membership Interests and Percentage Interests, are listed on Schedule 4.1 attached hereto. No Person may be a Member without the ownership of a Membership Interest. The Members shall have only such rights and powers as are granted to them pursuant to the express terms of this Agreement and the Act. Except as otherwise expressly provided in this Agreement, no Member, in such capacity, shall have any authority to bind, to act for, to sign for or to assume any obligation or responsibility on behalf of, any other Member or the Company.

Section 4.2. No Management or Dissent Rights. Except as otherwise required by law, the Members shall not have any right to take part in the management or operation of the Company other than through the Managers appointed by the Members to the Board of Managers. No Member shall, without the prior written approval of the Board of Managers, take any action on behalf of or in the name of the Company, or enter into any commitment or obligation binding upon the Company, except for actions expressly authorized by the terms of this Agreement. Members shall not be entitled to any rights to dissent or seek appraisal with respect to any transaction, including, without limitation, the merger or consolidation of the Company with any Person.

Section 4.3. Other Activities.

(a) Except as otherwise expressly provided in the Formation Agreement, any Member may engage in or possess any interest in another business or venture of any nature and description, independently or with others, and neither the Company nor any Member shall have any rights in or to any such independent ventures or the income or profits derived therefrom. Any Member shall be able to transact business or enter into agreements with the Company to the fullest extent permissible under the Act, subject to the terms and conditions of this Agreement.

(b) Except as otherwise expressly provided in the Formation Agreement, if a Member (or any Manager appointed by such Member) acquires knowledge of a potential transaction or matter which may be a business opportunity for both such Member and the Company or another Member, such Member (and its Manager appointees) shall have no duty to communicate or offer such business opportunity to the Company or any other Member and shall not be liable to the Company or the other Members for breach of any duty (including fiduciary duties) as a Member or Manager of the Company by reason of the fact that such Member or

Manager pursues or acquires such business opportunity for itself, directs such opportunity to another Person, or does not communicate information regarding such opportunity to the Company.

Section 4.4. No Right to Withdraw. Except as set forth in Section 8.1, no Member shall have any right to voluntarily resign or otherwise withdraw from the Company without the prior written consent of all the remaining Members. A resigning Member shall only be entitled to receive amounts approved by the Board of Managers on the terms and conditions set forth by such Board of Managers. A resigning Member shall not be entitled to a distribution of the fair value of its Membership Interests under Section 18-604 of the Act.

Section 4.5. Places of Meetings. Meetings of the Members may be held in Charlotte, North Carolina; Richmond, Virginia; or Newark, New Jersey, unless otherwise determined by a unanimous decision of the Board of Managers or agreed in advance by the Members holding the Requisite Member Interests.

Section 4.6. Member Meetings.

(a) A quarterly meeting of Members shall be held on such date and at such time and place as shall be designated from time to time by the Board of Managers (but not less often than once each fiscal quarter) and stated in the notice of the meeting, at which meeting the Secretary of the Company shall circulate an agenda for each such quarterly meeting, which agenda shall include a discussion of the financial reports of the Company most recently delivered pursuant to Article 6 of this Agreement, such other matters relating to the Company as any Member shall request to be included in such agenda and such other matters relating to the Company as the representatives of the Members attending such meeting shall elect to discuss. The Members may request that the Managers or officers of the Company participate in such quarterly meetings or make presentations regarding such matters relating the Company and the Business as the Members shall reasonably request; provided that such participation does not unreasonably interfere with the normal performance of their duties.

(b) A special meeting of the Members for any purpose or purposes may be called at any time by (i) the Board of Managers, (ii) the Chief Executive Officer of the Company, or (iii) on no more than three occasions during any fiscal year, at the request of any Prudential Member as long as the Prudential Members hold together at least an aggregate of a 5% Percentage Interest. At a special meeting, no business shall be transacted and no action shall be taken other than that stated in the notice of the meeting.

Section 4.7. Notice of Meetings. Written notice stating the place, day and hour of every meeting of the Members and, in case of a special meeting, the purpose or purposes for which the meeting is called, shall be mailed not less than (a) with respect to an annual meeting, ten nor more than 60 days before the date of the meeting (or if sent by facsimile, not less than three Business Days before the date of the meeting) or (b) with respect to a special meeting, five nor more than 60 days before the date of the meeting (or if sent by facsimile, not less than three Business Days before the date of the meeting), in either case to each Member entitled to vote at such meeting, at its address maintained in the records of the Company by the Company's Secretary. Such further notice shall be given as may be required by law, but meetings may be

held without notice if all the Members entitled to vote at the meeting are present in person or by telephone or represented by proxy or if notice is waived in writing by those not present, either before or after the meeting.

Section 4.8. Quorum. Any number of Members holding the Requisite Membership Interests entitled to vote with respect to the business to be transacted, who shall be present in person or by telephone or represented by proxy at any meeting duly called, shall constitute a quorum for the transaction of business. If less than a quorum shall be in attendance at the time for which a meeting shall have been called, the meeting may be adjourned from time to time by a majority of the Members present or represented by proxy without notice other than by announcement at the meeting.

Section 4.9. Voting.

(a) At any meeting of the Members, each Member entitled to vote on any matter coming before the meeting shall, as to such matter, have a vote, in person, by telephone or by proxy, equal to the number of Membership Interests held in its name on the relevant record date established pursuant to Section 4.11. Notwithstanding the foregoing, to the extent that the aggregate number of Membership Interests beneficially owned by the Prudential Members and their Affiliates represent at any time in the aggregate a Percentage Interest in excess of 49% as a result of Additional Capital Contributions made by them pursuant to Section 3.2(b)(ii), then all Membership Interests beneficially owned by the Prudential Members and their Affiliates in excess of such 49% limit (as determined in good faith by the Board of Managers) shall be deemed to be "Excess Membership Interests" and shall not be entitled to any voting rights under this Agreement or the Act unless and until the Membership Interests beneficially owned by the Prudential Members and their Affiliates no longer represent a Percentage Interest in excess of 49%, at which time such Excess Membership Interests shall have the same voting power as all other Membership Interests hereunder. For purposes of this Section 4.9, beneficial ownership of Membership Interests shall be determined in accordance with Rules 13d-3 and 13d-5 under the Exchange Act.

(b) Except as otherwise specified herein, the affirmative vote or consent of Members holding the Requisite Membership Interests shall constitute the act of the Members. Every proxy shall be in writing, dated and signed by the Member entitled to vote or its duly authorized attorney-in-fact.

Section 4.10. Action Without a Meeting; Telephonic Meetings.

(a) On any matter requiring an approval or consent of Members under this Agreement or the Act, the Members may take such action without a meeting

and without a vote if a consent or consents in writing, setting forth the action so taken, shall be signed by Members representing the requisite number of votes required to approve the taking of such action.

(b) Members may participate in meetings of the Members by means of conference telephone or similar communications equipment by means of which all Persons participating in the meeting can hear each other. Participation in a telephonic meeting pursuant to this Section 4.10

shall constitute presence at such meeting and shall constitute a waiver of any deficiency of notice.

Section 4.11. Record Date. For the purpose of determining Members entitled to notice of or to vote at any meeting of Members or any adjournment thereof, or entitled to receive a payment of any kind, or in order to make a determination of Members for any other proper purpose, the Board of Managers may fix in advance a date as the record date for any such determination of Members, such date in any case to be not more than 70 days prior to the date on which the particular meeting or action, requiring such determination of Members, is to be held or taken. If no record date is fixed for the determination of Members entitled to notice of or to vote at a meeting of Members, or Members entitled to receive payment of a distribution, the date on which notices of the meeting are mailed or the date on which the resolution of the Board of Managers declaring such distribution is adopted, as the case may be, shall be the record date for such determination of Members. When a determination of Members entitled to vote at any meeting of Members has been made as provided in this Section 4.11, such determination shall apply to any adjournment thereof unless the Board of Managers fixes a new record date, which it shall do if the meeting is adjourned to a date more than 120 days after the date fixed for the original meeting.

Section 4.12. Matters Requiring Member Approval.

(a) Notwithstanding anything in this Agreement to the contrary, the Company shall not, and shall cause its Subsidiaries not to, take, cause to be taken, or agree to or authorize, any of the following actions, without the affirmative vote or consent of Members holding the Requisite Membership Interests:

(i) the entry by the Company or any of its Subsidiaries into an agreement to effect, or, in the absence of such an agreement, the consummation of, any Non-De Minimis Disposition Transaction during any fiscal year in which the aggregate Disposition Transactions theretofore entered into by the Company and its Subsidiaries (and not terminated prior to consummation thereof) shall have involved the disposition of Subsidiaries, businesses or assets (or parts thereof) which, in the aggregate, generated more than 25% of the Company's consolidated revenues for the prior fiscal year (or, in the case of Disposition Transactions occurring during the fiscal year in which the Closing occurred, 25% of the Company's consolidated revenues on a pro forma basis for the calendar year preceding such fiscal year);

(ii) the entry by the Company or any of its Subsidiaries into an agreement to effect, or, in the absence of such an agreement, the consummation of, a Large Retail Brokerage Combination; provided, however, that for clarity, this clause (ii) shall not prohibit or otherwise affect the right of a Member or any of its Affiliates (other than the Company and its Subsidiaries) to (A) effect a Large Retail Brokerage Combination or (B) cause the Acquired Retail Brokerage Business involved in such Large Retail Brokerage Combination to be contributed to the Company in accordance with Section 3.4, and the Company and any of its Subsidiaries shall be authorized to enter into any agreement necessary or advisable to facilitate such contribution without regard

to the restriction set forth in this clause (ii) to the extent such contribution is permitted under the applicable provisions of this Agreement and the Formation Agreement;

(iii) any filing of any petition in bankruptcy by (or the decision not to oppose any similar petition filed by a third party in respect of) the Company or any of its Subsidiaries;

(iv) the admission of any Third Party Member; provided, however, that (x) a Permitted Transferee of a Wachovia Member or a Prudential Member and any transferee to whom a Wachovia Member or Prudential Member may Transfer any Membership Interests pursuant to Section 9.2 of the Formation Agreement shall be admitted as an Additional Member and (y) a Designated Combining Member or Designated Non-Combining Member shall be admitted as an Additional Member upon the receipt of Membership Interests pursuant to Section 3.4, in each case, without the requirement of

any approval by the Members pursuant to this Section 4.12;

(v) any fundamental change in the purpose of the Company specified in Section 2.3, including, without limitation, any determination by the Board of Managers to engage in a line of business not provided in Section 2.3; provided that for purposes of this clause (v), changes in the business, operations and strategy of the Company shall not be considered a fundamental change in the purpose of the Company if the Company and its Subsidiaries, taken as a whole, continue to engage primarily in the business of providing financial advice and securities brokerage services through registered representatives and do not engage to a material extent in the business of sponsoring and distributing asset management or insurance products;

(vi) the settlement of any regulatory matter involving admissions of wrongdoing by the Company or any of its Subsidiaries or a fine in excess of $250,000; provided that in the case of the settlement of regulatory matters, the consent of the Members shall not be unreasonably withheld; or

(vii) any agreement to take any of the foregoing actions that is not conditioned upon obtaining the consent of the Members (but only if such consent is then required to be obtained by this Section 4.12).

(b) Notwithstanding the foregoing, at any time following the fifth anniversary of the Closing, if (i) the Members of the Company consist solely of Wachovia Members and Prudential Members and (ii) Prudential's Percentage Interest is less than 25%, the matters set forth in clauses (i), (ii), (iv) and (vi) above shall not require the approval or consent of the Members pursuant to this Section 4.12.

(c) The Company shall cause its Subsidiaries not to, at any time, take any action or effect any transaction, or enter any agreement to take any action or effect any transaction, to which the prior approval provisions of Section 4.12(a) apply, unless such action or transaction has been approved by the Members of the Company in accordance with the provisions of this Section 4.12.

(d) In connection with the exercise of voting rights pursuant to this Section 4.12, a Member may consider its own best interests when determining how to cast its vote and shall in no event be deemed to have any fiduciary duty to any other Member or to the Company.

Section 4.13. Reimbursements. To the extent not inconsistent with or already covered by the provisions of the Transaction Documents to which a Member is a party, the Company shall reimburse the Members for all ordinary and necessary out-of-pocket expenses or expense accruals incurred by the Members on behalf of the Company but only if such expenses or accruals were authorized by or under the authority of the Board of Managers. Such reimbursement shall be treated as an expense of the Company that shall be deducted in computing the Profits and Losses of the Company and shall not be deemed to constitute a distributive share of Profits or a distribution or return of capital to any Member.

Section 4.14. Partition. Each Member waives any and all rights that it may have to maintain an action for partition of the Company's property.

Section 4.15. Liability. Except as otherwise required by the Act, the debts, obligations and liabilities of the Company, whether arising in contract, tort or otherwise, shall be solely the debts, obligations and liabilities of the Company, and no Member or Manager shall be obligated personally for any such debt, obligation or liability of the Company solely by reason of being a Member or Manager. No Member shall be required by this Agreement to loan the Company any funds or otherwise provide any financial or credit support.

ARTICLE 5
BOARD OF MANAGERS; OFFICERS; EXCULPATION; INDEMNITY

Section 5.1. Board of Managers.

(a) There shall be a Board of Managers (the "Board of Managers") made up of the number of individuals (who need not be Members) specified in this Agreement, which Board of Managers shall have sole responsibility for managing the business and affairs of the Company, except as otherwise expressly provided for herein or in the Act. Subject to Section 5.1(b), the Board of Managers shall be made up of five managers (each, a "Manager"), three of whom shall be designated by a Wachovia Member acting on behalf of all the Wachovia Members, and two of whom shall be designated by a Prudential Member acting on behalf of all the Prudential Members. Such Wachovia Member designee and Prudential Member designee shall each also appoint one or more alternate Managers. The alternate Managers appointed on behalf of the Wachovia Members shall have the power and

authority to vote in place of any other Manager appointed on behalf of the Wachovia Members if any such Manager is not present in person or by telephone or represented by proxy at a meeting of the Board of Managers (and when so acting, such alternate Manager shall be considered a Manager for all purposes hereunder). The alternate Managers appointed on behalf of the Prudential Members shall have the power and authority to vote in place of any other Manager appointed on behalf of the Prudential Members if any such Manager is not present in person or by telephone or represented by proxy at a meeting of the Board of Managers (and when so acting, such alternate Manager shall be considered a Manager for all purposes hereunder). For purposes of determining whether

a quorum is present, an alternate Manager shall be included if any Manager for which such alternate Manager has been appointed shall not be present in person or by proxy. All alternate Managers shall be permitted to be present at any meetings of the Board of Managers, whether or not they are entitled to vote thereat. The individuals listed in Schedule 5.1 hereto are the Managers and alternate Managers chosen by the Members and designated as the initial Managers and alternate Managers of the Company commencing following the Closing. Each Manager and alternate Manager shall hold such position until his or her successor is designated or until his or her earlier death, disability, resignation or removal.

(b) The number of Managers constituting the Board of Managers and the composition thereof shall not be changed; provided that, in the event of the admission of a Third Party Member, the Board of Managers shall be entitled, but not required, to adjust the number of Managers and the composition of the Board of Managers to provide that each Member following such admission shall be entitled to designate a number of Managers such that the percentage of all Managers designated by such Member shall be as near as practicable to its Percentage Interest (and shall further be entitled to appoint one or more alternates for the Managers so designated); provided, however, that unless otherwise approved by the affirmative vote of Members holding the Requisite Membership Interests, the total number of Managers of the Board of Managers shall not be fewer than 5 nor more than 10.

(c) The Board of Managers, acting by vote of the Managers as provided in this Article 5, shall have the power, discretion and authority on behalf and in the name of the Company to carry out any and all of the objects and purposes of the Company contemplated by this Agreement and the Formation Agreement and to perform or authorize all acts which it may deem necessary or advisable in connection therewith. The Members, in such capacity, shall have no part in the management of the Company and shall have no authority or right to act on behalf of or bind the Company in connection with any matter, except as expressly provided in this Agreement or as deemed necessary or appropriate by the Board of Managers. The Members agree that all determinations, decisions and actions made or taken by the Board of Managers shall be conclusive and absolutely binding upon the Company, the Members and their respective successors, assigns and personal representatives.

(d) Each Manager will serve without compensation unless otherwise agreed in writing by such Manager and the Board of Managers. Each Manager shall be entitled to reimbursement for reasonable and necessary out-of-pocket expenses incurred by such Manager during the course of conducting the Company's business, subject to any agreement to the contrary between such Manager and the Company. Notwithstanding the foregoing, the Board of Managers may authorize compensation and reimbursement from the funds of the Company for the Managers' designees and representatives, agents, employees and officers appointed by the Managers in furtherance of the business or purposes of the Company.

(e) No Member or Manager (acting in his or her capacity as such) shall have any right or authority to bind the Company to any third party with respect to any matter except pursuant to a resolution authorizing such action, which resolution is duly adopted by the Board of Managers by the affirmative vote required for such matter pursuant to the terms of this Agreement. No Manager shall be disqualified from voting on any issue, notwithstanding any

interest that such Manager or the Member nominating such Manager may have therein which differs from the interest of the Company or the other Members.

(f) Each Manager may authorize another individual (who may or may not be a Manager) to act for such Manager by proxy at any meeting of the Board of Managers, or to express consent or dissent to a Company action in writing without a meeting. Without limiting the manner in which a Manager may authorize another Person or Persons to act for such Manager as proxy, a writing authorizing a Person or Persons to act for such Manager as proxy, which has been executed by such Manager and entered into the books and records of the Company, shall be a valid means by which a Manager may grant such authority.

(g) Any Manager, and each alternate Manager acting in such capacity,

appointed pursuant to this Section 5.1 shall assume the powers, duties and obligations of a Manager as provided under this Agreement and is designated as a "manager" under the Act and shall be subject to the terms hereof and thereof. The Managers shall deal with all the Members in good faith, shall act in a manner they believe in good faith to be in or not opposed to the best interests of the Company, and shall have only those duties and obligations as are expressly provided for in this Agreement, and except to the extent so provided, no Manager shall owe any fiduciary or other duties to the Company, any Member or any other Person. It is expressly understood and agreed by the Members that each Manager shall be deemed to have fulfilled fully the requirements of this Section 5.1(g) in connection with the approval of any cost, service, agreement, transaction or arrangement subject to Section 5.10 if such cost, service, agreement, transaction or arrangement satisfies the standard set forth in Section 5.10(b).

Section 5.2. Removal and Resignation.

(a) Each Member or group of Members may remove any Manager or alternate designated by it at any time, with or without cause, effective upon written notice to the other Members and the Chief Executive Officer of the Company.

(b) Any Manager may resign by written notice to the Board of Managers. Unless otherwise specified therein, a Manager's resignation shall take effect upon delivery. Vacancies created on the Board of Managers resulting from the resignation, death, retirement or disability of a Manager shall be filled by the Member that appointed such Manager.

(c) Upon the removal or resignation of any Manager or alternate, the Member or group of Members that designated such Manager or alternate shall be entitled to appoint a replacement and such appointment shall become effective immediately upon delivery of written notice of such appointment to the other Members and the Chief Executive Officer.

Section 5.3. Meetings of the Board of Managers.

(a) Regular meetings of the Board of Managers shall be held on a quarterly basis at such date and time as the Board of Managers may designate. Special meetings of the Board of Managers may be called by any Manager at any time. Unless otherwise agreed by all the Managers in advance, meetings of the Board of Managers may be held only in Charlotte, North Carolina; Richmond, Virginia; or Newark, New Jersey.

(b) Notice of a meeting stating the place, date and hour of the meeting and the purpose or purposes for which the meeting is called shall be given to each Manager either by mail not less than ten days before the date of the meeting or by telephone, telegram or facsimile no less than three Business Days before the date of the meeting. Notice of any meeting may be waived in writing by any Manager. Presence at the meeting shall constitute waiver of any deficiency of notice under this Section 5.3, except when such Manager or alternate Manager attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not called or convened in accordance with this Agreement.

(c) The Secretary of the Company shall circulate to each Manager an agenda for the quarterly meeting not less than ten days in advance of such quarterly meeting (or if sent by facsimile, three Business Days before the date of such quarterly meeting). Such agenda shall include a discussion of the financial reports most recently delivered pursuant to Article 6 of this Agreement and any other matters that an Manager may reasonably request to be included on such agenda. Managers or officers of the Company shall attend such meeting and make such presentations relating to the Company as any Manager may reasonably request.

(d) The presence in person (including the presence of an alternate Manager) or by proxy of a number of Managers equal to a majority of the total number of Managers fixed pursuant to this Agreement shall constitute a quorum for the conduct of business at any meeting of the Board of Managers. Except as otherwise provided herein, the affirmative vote of a majority of the total number of Managers fixed pursuant to this Agreement at a meeting shall constitute the act of the Board of Managers.

(e) The Board of Managers shall meet with the Company's internal auditors at least once each fiscal quarter and with the Company's independent auditors at least twice each fiscal year.

(f) The Secretary of the Company or, if he or she is not present, any individual whom the Chairman may appoint, shall keep minutes of each meeting which shall reflect all actions taken by the Board thereat.

(g) The Board of Managers may establish other provisions and procedures relating to the governance of its meetings that are not in conflict

with the terms of this Agreement.

Section 5.4. Action Without a Meeting; Telephonic Meetings.

(a) On any matter requiring an approval or consent of the Board of Managers under this Agreement or the Act, the Board of Managers may take such action without a meeting and without a vote if a consent or consents in writing, setting forth the action so taken, shall be signed by the Managers having not less than the minimum number of votes that would have been required to authorize or take such action at a meeting (provided that at least one Manager appointed by a Wachovia Member and at least one Manager appointed by a Prudential Member shall have approved such action).

(b) Members of the Board of Managers may participate in a meeting of the Board of Managers, by means of a conference telephone or similar communications equipment by means of which all Persons participating in the meeting can hear one another. Participation in a meeting pursuant to this Section 5.4 shall constitute presence in person at such meeting and shall constitute a waiver of any deficiency of notice pursuant to Section 5.3, except when such Manager or alternate Manager attends the meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting is not called or convened in accordance with this Agreement.

Section 5.5. Chairman of the Board of Managers. The Board of Managers shall appoint a Manager to act as Chairman of the Board of Managers. The Chairman of the Board of Managers shall preside at all meetings of Members and the Board of Managers at which he is present, subject to the ultimate authority of the Board of Managers to appoint an alternate presiding officer at any meeting. He shall also contribute to the performance evaluation and compensation decisions with regard to the Chief Executive Officer, subject to the ultimate authority of the Board of Managers, and perform such other duties as from time to time may be assigned to him by the Board of Managers, subject, in each case, to the ultimate authority of the Board of Managers. The Chief Executive Officer shall consult with the Chairman on the business plan and budget of the Company, executive appointments and compensation, changes in the integration plan, and such other matters as the Board of Managers shall determine from time to time. John R. Strangfeld, Jr. shall be the initial Chairman of the Board of Managers and, absent cause, Mr. Strangfeld shall not be removed as the Chairman of the Board of Managers until at least the end of the Integration Period.

Section 5.6. Officers; Designation and Election of Officers; Duties.

(a) The officers of the Company shall consist of a Chief Executive Officer, a Chief Financial Officer, and a Secretary. Other officers, including one or more Vice-Presidents, and assistant and subordinate officers, may from time to time be elected by the Board of Managers. The Persons listed in Schedule 5.6 hereto are the officers designated as the initial officers of the Company. All officers shall hold office for such term as shall be determined from time to time by the Board of Managers and until their successors are elected by the Board of Managers. Any two offices may be held by the same Person as the Board of Managers may determine. An officer of the Company need not be an employee of the Company and may be an officer or employee of any Member or any Member's Subsidiaries and other Affiliates.

(b) Removal of Officers; Vacancies. Any officer of the Company may be removed summarily with or without cause, at any time, by approval of the Board of Managers. Vacancies may be filled by approval of the Board of Managers.

(c) Powers and Duties. The officers of the Company shall have such authority and perform such duties in the management of the Company as may be prescribed by the Board of Managers and, to the extent not so prescribed, as generally pertain to their respective offices, subject to the control of the Board of Managers. Officers shall act in a manner they believe in good faith to be in or not opposed to the best interests of the Company and shall have only those duties and obligations as are specified in this Agreement and in addition, as determined by the Board of Managers, and shall perform those duties and obligations in good faith, and except to

the extent so provided, no officer shall owe any fiduciary or other duties to the Company, any Member or any other Person. Any action taken by an officer that would have satisfied the duties imposed on a Manager if such Person were acting as a Manager in such circumstance shall be deemed to fulfill fully the requirements of this Section 5.6(c) applicable to such officer, including but not limited to those actions concerning any cost, service, agreement, transaction or arrangement subject to Section 5.10.

(d) Officers as Agents; Reliance by Third Parties.

(i) The officers, to the extent of their powers set forth in this Agreement or in a resolution of the Board of Managers, are agents of the Company for the purpose of the Company's business, and the actions of the officers taken in accordance with such powers shall bind the Company.

(ii) Any Person dealing with the Company may rely upon a certificate signed by any officer as to:

(A) the identity of any Member, Manager or alternate Manager or officer;

(B) the existence or nonexistence of any fact or facts which constitute a condition precedent to acts by Members, the Board of Managers or officers or in any other manner germane to the affairs of the Company;

(C) the Persons who are authorized to execute and deliver any instrument or document of or on behalf of the Company;

(D) the authenticity of any copy of this Agreement and amendments hereto;

(E) any act or failure to act by the Company or as to any other matter whatsoever involving the Company or, solely with respect to the activities of the Company, any Member; and

(F) the authority of the Board of Managers, any officer, any employee or agent of the Company, or the Tax Matters Member.

(e) Compensation. The compensation of all officers of the Company shall be determined by the Board of Managers.

Section 5.7. Initial Business Plan; Budget and Forecast.

(a) Attached as Schedule 5.7 hereto is an outline of the material terms expected to be included in the initial business plan of the Company, for the period beginning on the Closing Date and ending on December 31, 2003.

(b) No later than 30 days before the end of each fiscal year, management of the Company shall develop and submit to the Board of Managers for adoption (i) a budget for the

Company and its consolidated Subsidiaries for the following fiscal year, which budget will include quarterly earnings, expense and cash flow forecasts for each quarter during the fiscal year covered by such budget and a comparison of actual to budgeted results for the year preceding the year covered by such budget, and (ii) an earnings, expense and cash flow forecast for the two fiscal years following the fiscal year covered by such budget, which forecasts will be on a quarterly basis for the first fiscal year after the fiscal year covered by such budget and on an annual basis for the second following year.

(c) Management of the Company will include in each budget of the Company a summary of all financial and other arrangements expected to be in effect between the Company and any Member or its Affiliates, including a description of services expected to be provided by or to the Company and fees expected to be paid by or to a Member or its Affiliates for the fiscal year covered by the budget. Management of the Company will also include in such budget management's estimate of the aggregate "Costs" (as defined in the Wachovia/Company Master Agreement) expected to be incurred by the Company pursuant to the Wachovia/Company Master Agreement during the fiscal year covered by the budget, specifying the amount of such Costs estimated to be incurred during such fiscal year in respect of "Rate-Based Services" (as defined in the Wachovia/Company Master Agreement) to be provided to the Company thereunder. The Board of Managers shall, in connection with the approval of the budget, consider and discuss the Rates proposed by Wachovia to apply to Rate-Based Services for the following fiscal year in light of the provisions of Section 5.10 and, following such consideration and discussion, shall determine whether or not to approve such Rates pursuant to the Wachovia/Company Master Agreement.

Section 5.8. Exculpation and Indemnification.

(a) Exculpation.

(i) No Person made or threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such Person or such Person's testator or intestate is or was a Member, Manager or alternate Manager, officer of the Company or serves or served at the request of the Company any other enterprise as a member, manager, partner, director, officer,

employee or agent (each in their capacity as such, an "Exculpated Person") shall be liable to the Company or any other Exculpated Person, except that an Exculpated Person shall be liable for any loss, damage or claim incurred by reason of such Exculpated Person's (x) willful misconduct, fraud or bad faith or (y) receipt from the Company of a personal benefit to which such Exculpated Person is not legally entitled.

(ii) An Exculpated Person shall be fully protected in relying in good faith upon the records of the Company and upon such information, opinions, reports or statements presented to the Company by any Person as to matters the Exculpated Person reasonably believes are within such other Person's professional or expert competence and who has been selected with reasonable care by or on behalf of the Company, including information, opinions, reports or statements as to the value and amount of the assets, liabilities, Profits or Losses or any other facts pertinent to the existence and amount of assets from which distributions to Members might properly be paid.

(b) Indemnification by the Company. To the fullest extent permitted by applicable law, the Company shall indemnify and hold harmless any Person made or threatened to be made a party to any action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that such Person is or was a Member, Manager or alternate Manager, or officer of the Company or serves or served at the request of the Company as a member, manager, partner, director, officer, employee or agent of any other enterprise (each in their capacity as such, an "Indemnified Person"), except that no Indemnified Person shall be entitled to be indemnified in respect of any loss, damage or claim incurred by such Indemnified Person by reason of (i) willful misconduct, fraud or bad faith or (ii) receipt from the Company of a personal benefit to which such Indemnified Person is not legally entitled. Expenses incurred by any such Indemnified Person in defending any such action, suit or proceeding shall be paid or reimbursed by the Company promptly upon receipt by it of an undertaking of such Indemnified Person to repay such expenses if it shall ultimately be determined that such Indemnified Person is not entitled to be indemnified by the Company. The rights provided to any Indemnified Person by this Section 5.8 shall be enforceable against the Company by such Indemnified Person who shall be presumed to have relied upon it in serving or continuing to serve as a Member, Manager, alternate Manager, member, manager, partner, director, officer, employee or agent as provided above. No amendment of this Section 5.8 shall impair the rights of any Indemnified Person arising at any time with respect to events occurring prior to such amendment. For purposes of this Section 5.8, the term "Company" shall include any predecessor of the Company and any constituent entity (including any constituent of a constituent) absorbed by the Company in a consolidation or merger; the term "other enterprise" shall include any corporation, partnership, joint venture, trust, employee benefit plan or other enterprise; service "at the request of the Company" shall include service as an Indemnified Person of the Company which imposes duties on, or involves services by, such Indemnified Person with respect to an employee benefit plan, its participants or beneficiaries; any excise taxes assessed on an Indemnified Person with respect to an employee benefit plan shall be deemed to be indemnifiable expenses; and action taken or omitted by an Indemnified Person with respect to an employee benefit plan which such Indemnified Person reasonably believes to be in the interest of the participants and beneficiaries of such plan shall be deemed to be action not opposed to the best interests of the Company.

(c) Survival. Notwithstanding anything to the contrary contained in this Agreement, the provisions of this Section 5.8 shall survive the termination, voluntary or involuntary, of a Membership Interest and shall survive the termination of this Agreement or dissolution of the Company.

(d) Availability. The provisions of this Section 5.8 shall be applicable to any threatened, pending, or completed action, suit, or proceeding, whether civil, criminal, administrative or investigative and whether formal or informal (in each case, a "Proceeding") commenced after the date of this Agreement against any Indemnified Person arising from any act or omission, whether occurring before or after the date of this Agreement. No amendment or repeal of this Section 5.8 shall have any effect on the rights provided under this Section 5.8 with respect to any act or omission occurring prior to such amendment or repeal. The Company promptly shall take all such actions, and make all such determinations, as shall be necessary or appropriate to comply with its obligation to make any indemnity under this Section 5.8 and shall promptly pay or reimburse all reasonable expenses, including attorneys' fees, incurred by any such Indemnified Person in connection with such actions and determinations or a Proceeding of

any kind arising therefrom, upon receipt by the Company of an undertaking by such Indemnified Person to repay such expenses if it shall ultimately be determined that such Indemnified Person is not entitled to be indemnified by the

Company.

(e) Standard of Conduct. The termination of any Proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent, shall not of itself create a presumption that the Indemnified Person was not entitled to indemnification pursuant to Section 5.8(b).

(f) Insurance. The Company may purchase and maintain insurance to indemnify it against the whole or any portion of the liability assumed by it in accordance with this Section 5.8 and may also procure insurance, in such amounts as the Board of Managers may determine, on behalf of any Person who is or was an Indemnified Person against any liability asserted against or incurred by him in any such capacity or arising from his status as such, whether or not the Company would have power to indemnify him against such liability under the provisions of this Section 5.8.

(g) Non-Exclusivity. Every reference in this Section 5.8 to Members, Managers or alternate Managers, or officers shall include former Members, Managers or alternate Managers, or officers and their respective heirs, executors and administrators. The indemnification hereby provided and provided hereafter pursuant to the power hereby conferred by this Section 5.8(g) on the Board of Managers shall not be exclusive of any other rights to which any Person may be entitled, including any right under policies of insurance that may be purchased and maintained by the Company or others, with respect to claims, issues or matters in relation to which the Company would not have the power to indemnify such Person under the provisions of this Section 5.8. Such rights shall not prevent or restrict the power of the Company to make or provide for any further indemnity, or provisions for determining entitlement to indemnity, pursuant to one or more indemnification agreements or other arrangements (including, without limitation, creation of trust funds or security interests funded by letters of credit or other means) approved by the Board of Managers (whether or not any of the Members, Managers or alternate Managers, or officers of the Company shall be a party to or beneficiary of any such agreements or arrangements); provided, however, that any provision of such agreements or other arrangements shall not be effective if and to the extent that it is determined to be contrary to this Section 5.8 or applicable laws of the State of Delaware.

(h) Application of Formation Agreement and Transaction Documents. Nothing contained in this Section 5.8 is intended to relieve any Member or any other Person from any liability or other obligation of such Person pursuant to the Formation Agreement or any other Transaction Document, or to in any way impair the enforceability of any provision of such agreements against any party thereto.

(i) Limitations. Any indemnity under this Section 5.8 shall be provided solely out of, and only to the extent of, the Company's assets, and no Member shall be required directly to indemnify any Indemnified Person pursuant to this Section 5.8. None of the provisions of this Section 5.8 shall be deemed to create any rights in favor of any Person other than Indemnified Persons and Exculpated Persons.

Section 5.9. Voting of Shares Held. Subject to Section 4.12 and unless otherwise provided by resolution of the Managers, the Board of Managers may from time to time appoint an attorney or attorneys or agent or agents of the Company, in the name and on behalf of the Company or any Subsidiary, to cast the vote which the Company or such Subsidiary may be entitled to cast as a member, partner, shareholder or otherwise in any other enterprise, any of whose securities may be held by the Company or such Subsidiary, at meetings of the holders of the shares or other securities of such other enterprise, or to consent in writing to any action by any such other enterprise, and the Board of Managers shall instruct the Person or Persons so appointed as to the manner of casting such votes or giving such consent and may execute or cause to be executed on behalf of the Company such written proxies, consents, waivers or other instruments as may be necessary or proper. To the extent that any such vote relates to a matter that is subject to Section 4.12, prior to taking any of the foregoing actions, the Company shall first have obtained the requisite approval of the Members in accordance with Section 4.12.

Section 5.10. Transactions with Affiliates.

(a) The Company and its Subsidiaries may not enter into, modify or amend any transaction or agreement with any Member or any Affiliate of a Member after the Closing Date if the terms of such transaction or agreement or such modification or amendment are materially less favorable in the aggregate to the Company and its Subsidiaries than the terms that could be obtained by the Company or such Subsidiary through an arm's-length transaction or agreement with an unrelated party. Notwithstanding the foregoing, Wachovia may allocate costs to the Company in a manner consistent with and not materially less favorable to the Company than Wachovia's allocation to its other Subsidiaries at such time for the same or similar products or services.

(b) Without limiting the scope of Section 5.10(a), the Members

acknowledge and agree that the Board of Managers is expressly authorized to approve any "Rates", "Costs" and "Services" (each as defined in the Wachovia/Company Master Agreement), as well as any other costs, services, agreements, transactions or arrangements of a type that Wachovia renders to or enters into with its other Subsidiaries, so long as the Board of Managers determines in good faith that such costs, services, agreements, transactions or arrangements comport with the standard described in Section 5.10(a), including the last sentence thereof. Upon such good faith determination, the Managers shall be deemed to have discharged fully their duties set forth in Section 5.1(g) with respect to such approval in all respects. For purposes of Section 3.1(b) of the Formation Agreement, the Board of Managers may approve any change to the arrangements referred to therein if such change satisfies the standard set forth in the penultimate sentence of Section 3.1(b), and upon such good faith determination, the Managers shall be deemed to have discharged fully their duties set forth in Section 5.1(g). Without limiting the foregoing, it is understood and agreed that the Board of Managers shall be under no obligation whatsoever to solicit any bids or quotations from any other party, or obtain any independent valuations or appraisals, before approving any costs, services, agreements, transactions or arrangements with a Member or an Affiliate thereof. For the avoidance of doubt, the Members acknowledge that it is the policy of Wachovia in effect as of the date of this Agreement for all of its Subsidiaries to obtain substantially all of their support services from Wachovia or its other Subsidiaries to the extent available.

(c) Notwithstanding anything herein to the contrary, the Company Entities may document and reduce to writing any transaction, agreement or other arrangement with Wachovia or any of its Affiliates that is in effect on the date hereof.

ARTICLE 6

ACCOUNTING, TAX, FISCAL AND LEGAL MATTERS

Section 6.1. Fiscal Year. The Company hereby adopts a 12-month period ending on each December 31 as its fiscal year. The Board of Managers shall have the authority to change the fiscal year of the Company without any amendment to this Agreement.

Section 6.2. Bank Accounts. All funds of the Company shall be deposited in a bank account or accounts opened in its name. In the absence of instructions from the Board of Managers to the contrary, the Chief Executive Officer shall determine the institution or institutions at which the accounts will be opened and maintained, the types of accounts, and the Persons who will have authority with respect to the accounts and the funds therein.

Section 6.3. Books of Account, Tax Matters.

(a) The Company shall maintain, at its principal place of business, separate books of account for the Company that shall show a true and accurate record of all costs and expenses incurred, all charges made, all credits made and received and all income derived in connection with the operation of the Company's business in accordance with generally accepted accounting principles consistently applied, and, to the extent inconsistent therewith, in accordance with this Agreement. Such books of account shall at all times be maintained at the principal place of business of the Company and shall be open to inspection and examination at reasonable times by each Member and its duly authorized representatives for any purpose reasonably related to such Member's interest in the Company.

(b) The Managers shall prepare and maintain, or cause to be prepared and maintained, the books of account of the Company. The Company shall cause all of its tax returns to be filed in a timely manner, and the Company's independent accountants shall perform a signing review of tax returns that involve any Major Tax Items prior to the filing thereof (such accountants, the "Signing Review Accountants"). As soon as reasonably practicable after the end of each fiscal year of the Company, but in no event later than July 15 of each year, the Board of Managers shall furnish each Member with Internal Revenue Service Form K-1 (Form 1065), and such other information (including without limitation all required state tax information reporting returns comparable to Form K-1, in no event later than August 15 of each year) as shall be necessary to enable each Member to prepare its income tax returns. All questions of accounting shall be determined by the Board of Managers.

(c) In addition to such books and records, the Board of Managers shall cause the Chief Executive Officer to maintain and make available at the principal business office of the Company (or, with respect to copies of the Company's income tax returns and reports, at the principal business office of the Tax Matters Member): copies of this Agreement; a current list of

the full name and last known business address of each Member; a copy of the Certificate, including all certificates of amendment thereto and executed copies of all powers of attorney pursuant to which the Certificate or any certificate of amendment has been executed; copies of the Company's federal, state, and local (whether domestic or foreign) income tax returns and reports, if any; and of any financial statements of the Company, in each case for the three most recent years; and all other records required to be maintained pursuant to this Agreement or the Act.

(d) Except as provided in the next paragraph, the Board of Managers must approve all tax elections and tax accounting methods adopted by the Company for income tax purposes, and all agreements and settlements proposed to be entered into with the Internal Revenue Service or other taxing authority as a result of an audit or examination of any of the Company's income tax returns. Without limiting the authority of the Board of Managers to approve the final terms of any settlement or other disposition of any tax proceeding or litigation with the Internal Revenue Service, each Member shall have the right to participate in the conduct and/or negotiation of any such settlement, proceeding or litigation. Expenses of administrative proceedings and of litigation of Company tax issues shall be paid by the Company.

(e) A Wachovia Member, acting on behalf of all Wachovia Members, and a Prudential Member, acting on behalf of all Prudential Members, shall have the right to review the Company's IRS Form 1065, and any Schedule K-1 thereto; any IRS Form 5471 to be filed by the Company; and any income or franchise tax return or report to be filed by the Company in (A) New York (including New York City), (B) New Jersey, (C) California, (D) Virginia, (E) Illinois, (F) Florida, and (G) North Carolina, at least 45 days prior to the filing of such returns, and shall comment on such returns within 15 days of receipt thereof. The Members shall determine in good faith each year whether the list of states in the preceding sentence should be modified to reflect changes in tax law or the operations of the Company. If, in connection with any such review, there is a disagreement between the Members with respect to any tax election reflected in such return or the reporting, amount, allocation, character, timing, method of accounting applicable to, tax attributes of or any other relevant aspect of any tax item, which affects (i) an item of income, gain, loss or deduction of the Company equal to or greater than $10 million or (ii) a tax credit of the Company equal to or greater than $3.5 million (in each case as determined by the Signing Review Accountants), (iii) apportionment of income among the states listed above, or (iv) any tax item specially allocated solely to one Member or its Affiliated Members (each a "Major Tax Item"), such dispute shall be resolved pursuant to the Tax Dispute Resolution Procedure.

(f) The Initial Tax Matters Member (and, to the extent that the Initial Tax Matters Member is no longer a Member, another Wachovia Member selected by the Board of Managers and agreed to in writing by such Wachovia Member) hereby is designated the Company's tax matters member ("Tax Matters Member"), with all powers and responsibilities of a "tax matters partner" as defined in Section 6231(a)(7)(A) of the Code and shall manage administrative tax proceedings conducted at the Company level by the Internal Revenue Service with respect to Company matters. No Member may act independently with respect to any tax matter relating to or affecting the Company without the prior express approval of the Tax Matters Member and shall keep the Tax Matters Member informed of each material development and make related documents available to the Tax Matters Member before submission to any taxing authority or

court, in each case, at the expense of such Member. Except as otherwise directed by the Board of Managers pursuant to paragraph (d) above, the Tax Matters Member may, in its sole discretion, cause the Company to make all elections required or permitted to be made by the Company under applicable law and not otherwise expressly provided for in this Agreement; provided, however, that at the request of any Member, the Tax Matters Member shall cause the Company to make the election under Section 754 of the Code. The Tax Matters Member shall consult with and consider the views of the other Members with regard to any material action it intends to take in its capacity as the Tax Matters Member. The Tax Matters Member shall furnish promptly to the other Members copies of material documents and notices received in connection with any administrative or judicial proceeding relating to income tax or other material tax matters of the Company and shall notify promptly the other Members if (i) the Tax Matters Member causes an amended income tax or other material tax return to be filed on behalf of the Company or (ii) any taxing authority commences an audit of an income tax return of the Company and such audit is reasonably likely to result in one or more material adverse adjustments or if any material adverse adjustment to any such return is proposed in writing. The Tax Matters Member shall not settle any audit or judicial proceeding with respect to any Major Tax Item without the written consent of a Prudential Member, acting on behalf of all Prudential Members (which consent shall not be unreasonably withheld or delayed). Any disagreement between the Members with respect to a matter described in the preceding sentence shall be resolved pursuant to the Tax Dispute Resolution Procedure.

Section 6.4. Audits; Inspection of Books and Records.

(a) The Board of Managers shall, in connection with the formulation and presentation of the budget of the Company, determine and cause the Company to adopt an annual internal audit plan, which may be on either a continuous or a periodic basis and may be conducted by employees of any Member, or any Affiliate of any Member, in each case designated by the Board of Managers, or by independent auditors retained by the Company. The internal audit plan shall contain procedures and protocols relating to the conduct of audits consistent with the best practices of the industry. Without limiting the foregoing, the Prudential Members shall be entitled to designate areas for audit pursuant to the internal audit plan; provided that the amount of audit hours attributable to the areas so designated shall not exceed 20% of the total audit hours (but in any event not more than 6,000 hours) in any single year. The Company shall, and the Board of Managers shall cause the Company to, implement such internal audit plan and advise the Members promptly of each incident that comes to its attention regarding the Company's failure to adhere to such internal audit plan in any material respect.

(b) All books, records and accounts of the Company and its Subsidiaries shall be open to inspection and examination by any of the Members or their representatives at reasonable times and in a reasonable manner so as to not unduly interfere with the management and business of the Company or its Subsidiaries. The Company shall, and shall cause its Subsidiaries to, cause its and their officers to make themselves available to discuss the affairs of the Company and its Subsidiaries upon the reasonable request of any of the Members or their representatives at reasonable times and in a reasonable manner so as to not unduly interfere with the management and business of the Company or its Subsidiaries. Such right of inspection may be exercised through any agent or employee of such Member (including any Manager designated by such Member) or a certified public accounting firm of recognized international standing designated by

such Member. Such Member shall bear all expenses incurred in any examination requested by such Member pursuant to this Section 6.4(b). Any information obtained by a Member pursuant to this Section 6.4 shall be held in confidence pursuant to the terms of Section 8.2 of the Formation Agreement.

Section 6.5. Financial Information and Related Matters.

(a) Annual Financials. The Company will prepare and deliver, or cause to be prepared and delivered, to each Member, not less than 15 days before the date on which Wachovia is required to file its Annual Report on Form 10-K with the Securities and Exchange Commission, annual audited financial statements (consisting of consolidated statements of financial condition, operations and cash flows) prepared in accordance with generally accepted accounting principles.

(b) Monthly and Quarterly Financials. The Company will prepare and deliver, or cause to be prepared and delivered, to each Member unaudited financial statements (consisting of consolidated statements of financial condition, earnings and cash flows) within 12 days of the end of each of the Company's fiscal quarters and within 12 days of the end of each month.

(c) Additional Information. The Company will also deliver to one Wachovia Member on behalf of all Wachovia Members and one Prudential Member on behalf of all Prudential Members the additional information required to be delivered to the Parties (as defined in the Formation Agreement) by Schedule 8.2(g) to the Formation Agreement to the extent that such additional information is not so delivered to Wachovia and Prudential, respectively.

Section 6.6. Tax Election. The Members intend that the Company shall be treated as a partnership for United States federal, state, and local and any foreign tax purposes to the extent such treatment is available (and no Member will make an election otherwise), and agree to take such actions as may be necessary to receive and maintain such treatment and refrain from taking any actions inconsistent therewith. Notwithstanding the foregoing, nothing in this Agreement is intended to create a partnership among the Members, and no Member shall be liable for the debts, liabilities or obligations of the Company or any other Member.

Section 6.7. Auditors. The auditors of the Company shall be such firm of certified independent public accountants as shall be selected by the Board of Managers. The initial auditors of the Company shall be KPMG LLC.

Section 6.8. Regulatory Compliance Liaison. Each Member shall be entitled to designate a regulatory compliance liaison to the Company. The Company shall (a) designate a regulatory compliance officer to (i) consult with the regulatory compliance liaisons designated by the Members on a regular periodic basis and (ii) provide such regulatory compliance liaisons with copies of such material regulatory reports or filings as such regulatory compliance liaisons may reasonably request from time to time concerning the Company's compliance with applicable regulatory requirements (including, without limitation, compliance with the Exchange Act, the Investment Advisers Act of

1940, as amended, and the rules and regulations promulgated thereunder, and the rules and regulations of any self-regulatory organization), (b) keep such regulatory compliance liaisons apprised of material compliance issues as promptly as reasonably

practicable as such matters arise, and (c) consider the input of such regulatory compliance liaisons in the Company's formulation of regulatory compliance policy and in its response to regulatory non-compliance matters.

ARTICLE 7

ALLOCATIONS AND DISTRIBUTIONS

Section 7.1. Allocations.

(a) Percentage Interests of the Members. The Percentage Interest of each Member initially shall be as indicated on Schedule 4.1.

(b) Allocation of Profit and Loss. Except as otherwise provided in this Section 7.1, or required pursuant to Treasury Regulations Section 1.704-1(b)(1)(i), Profit and Loss of the Company for each fiscal year of the Company shall be allocated among the Members in accordance with their respective Percentage Interests, as such Percentage Interests may be in effect from time to time.

(c) Special Allocations. Notwithstanding anything contained herein to the contrary:

(i) If a Member would at any time receive, but for this Section 7.1(c)(i), an allocation of deduction, loss, or expenditure that would cause or increase a deficit balance in such Member's Capital Account in excess of any amount of such deficit balance that the Member is obligated to restore or deemed obligated to restore (as determined in accordance with Treasury Regulations Sections 1.704-1(b)(2)(ii)(c), 1.704-2(g)(1) and 1.704-2(i)(5)), then the portion of such allocation that would cause or increase such deficit Capital Account balance will be specially allocated to the other Members, if any, with positive Capital Account balances in proportion to such balances. The loss limitation under this Section 7.1(c)(i) is intended to comply with Treasury Regulations Section 1.704-1(b)(2)(ii)(d), including the reductions described in subparagraphs (4), (5) and (6) therein.

(ii) If in any Tax Year, a Member receives an adjustment, allocation or distribution described in Treasury Regulations Section 1.704-1(b)(2)(ii)(d)(4), (5) or (6), items of Company income and gain will be specially allocated to each such Member in an amount and manner sufficient to eliminate, to the extent required by the Treasury Regulations, the deficit balance in such Member's Capital Account in excess of any amount of such deficit balance that the Member is obligated to restore or deemed obligated to restore (as determined in accordance with Treasury Regulations Sections 1.704-1(b)(2)(ii)(c), 1.704-2(g)(1) and 1.704-2(i)(5)) as quickly as possible; provided that an allocation pursuant to this Section 7.1(c)(ii) will be made only if and to the extent that such Member would have a Capital Account deficit after all other allocations provided for in this Article 7 have been tentatively made as if this Section 7.1(c)(ii) were not in the Agreement. This Section 7.1(c)(ii) is intended to qualify and be construed as a "qualified

income offset" within the meaning of Treasury Regulations Section 1.704-1(b)(2)(ii)(d) and will be interpreted consistently therewith.

(iii) If there is a net decrease in minimum gain attributed to the Company or Member nonrecourse debt minimum gain (determined in accordance with the principles of Treasury Regulations Sections 1.704-2(d) and 1.704-2(i)) during any Company taxable year, the Members will be allocated items of income and gain attributed to the Company for such year (and, if necessary, subsequent years) in an amount equal to their respective shares of such net decrease during such year, determined pursuant to Treasury Regulations Sections 1.704-2(g) and 1.704-2(i)(5). The items to be so allocated will be determined in accordance with Treasury Regulations Section 1.704-2(f). This Section 7.1(c)(iii) is intended to comply with the minimum gain chargeback requirements in such Treasury Regulations and will be interpreted consistently therewith, including that no chargeback will be required to the extent of the exceptions provided in Treasury Regulations Sections 1.704-2(f) and 1.704-2(i)(4).

(iv) If any Member (A) is required to make an indemnity payment to the Company pursuant to Section 7.2 of the Formation Agreement or (B) pays any amount which gives rise to a tax deduction of the Company,

such payment shall be treated as a Capital Contribution by the Member and the loss giving rise to the indemnity payment or the tax deduction attributable to the payment shall be allocated to such Member.

(v) The allocation provisions set forth in this Article 7 and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Treasury Regulations Section 1.704-1(b) and will be interpreted and applied in a manner consistent with such Treasury Regulations; provided, however, that such provisions will not affect the economic rights of any Member, including rights to distributions with respect to the Company.

(vi) Any special allocations of items of income, gain, loss or deductions pursuant to Sections 7.1(c)(i), (ii) and (iii) will be taken into account in computing subsequent allocations pursuant to Section 7.1(b) and this Section 7.1(c), so that the net amount of any items so allocated will, to the extent possible, be equal to the net amount that would have been allocated to each such Member pursuant to the provisions of Section 7.1(b) if such special allocations had not occurred.

(vii) If any Member contributes to the Company an asset or liability included on the applicable Final Closing Balance Sheet that represents an item of income or deduction, respectively, that has not yet been recognized for federal income tax purposes, such item of income or deduction, as the case may be, shall be allocated to the contributing Member when recognized by the Company.

(viii) In the event that any fees, interest, or other amounts paid to any Member or any Affiliate thereof pursuant to this Agreement or any other agreement attributed to the Company with any Member or Affiliate thereof providing for the payment of such amount, and deducted by the Company in reliance on Section 707(a)

and/or 707(c) of the Code, are disallowed as deductions to the Company on its federal income tax return and are treated as Company distributions, then:

(A) the Profit or Loss, as the case may be, for the Tax Year in which such fees, interest, or other amounts were paid will be increased or decreased, as the case may be, by the amount of such fees, interest, or other amounts that are treated as Company distributions; and

(B) there will be allocated to the Member to which (or to whose Affiliate) such fees, interest, or other amounts were paid, prior to the allocations pursuant to Section 7.1(b), an amount of gross income for the Tax Year equal to the amount of such fees, interest, or other amounts that are treated as Company distributions.

(ix) Any income, gain, loss, deduction or credit resulting from the conversion, following the Closing Date, of a Prudential Contributed Subsidiary (as defined in the Formation Agreement) listed on Schedule 4.2(b) of the Formation Agreement to an entity that is disregarded or treated as a partnership for United States federal income tax purposes shall be allocated to the Prudential Member.

(d) Tax Allocations.

(i) For income tax purposes only, each item of income, gain, loss, and deduction with respect to any asset of the Company, the Carrying Value of which differs from its adjusted tax basis for federal income tax purposes, will be allocated in accordance with the principles of Section 704(c) of the Code so as to take into account the variation between the adjusted tax basis of such asset and its Carrying Value. For purposes of applying the principles of Section 704(c) of the Code, the Company will use the traditional method described in Treasury Regulations Section 1.704-3(b).

(ii) Subject to the provisions of Section 7.1(d)(i), items of income, gain, loss, deduction and credit to be allocated for income tax purposes will be allocated for each Tax Year among the Members in the same manner and on the same basis as Profit and Loss are allocated, taking into account special allocations made pursuant to Section 7.1(c).

(iii) Any bad debt deduction with respect to an FA Note contributed by a Member and any deduction arising from the forgiveness of such an FA Note or the payment of compensation associated with such an FA Note shall be allocated to the contributing Member to the extent of the greater of (A) the excess of (1) the face amount of such FA Note at Closing over (2) the amount recorded in respect of such FA Note as an asset on the contributing Member's Final Closing Balance Sheet and (B) any amount recorded as a liability on the contributing Member's Final Closing Balance

Sheet that is associated with such FA Note. Any such deduction not allocated to the contributing Member pursuant to the preceding sentence shall be allocated in accordance with the other provisions of this Article 7.

Section 7.2. Distributions.

(a) Mandatory Distributions.

(i) Within 60 days after the end of each fiscal quarter of the Company, the Board of Managers shall distribute to the Members 70% of all Distributable Cash received by the Company and its Subsidiaries during such fiscal quarter. "Distributable Cash" means, with respect to any fiscal quarter, the Company's consolidated net earnings for such quarter, determined in accordance with generally accepted accounting principles, before deduction for any expense related to the amortization of intangible assets.

(ii) In addition to any distributions made pursuant to Section 7.2(a)(i):

(A) the Board of Managers may distribute any additional amounts to the Members, whether out of Distributable Cash or any other source, to the extent permitted by applicable Law, as the Board of Managers may in its sole discretion determine, and

(B) once the amount of Distributable Cash received by the Company (and not theretofore distributed by the Company pursuant to Section 7.2(a)(i) and the preceding clause (A) of this Section 7.2(a)(ii)) from and after the Closing Date and through the end of the preceding fiscal quarter exceeds $263 million, the Board of Managers shall distribute to any Member who so elects, by written notice given to the Company within 75 days after the end of the preceding fiscal quarter, an amount equal to such Member's Percentage Interest of the difference between (x) the total amount of Distributable Cash for such preceding fiscal quarter, and (y) the total amount of all distributions declared by the Board of Managers in respect of such fiscal quarter pursuant to Section 7.2(a)(i) and the preceding clause (A) of this Section 7.2(a)(ii). If not all Members make such an election, each non-electing Member shall be deemed to have received the distribution that it otherwise would have received (if it had made such an election) and then immediately contributed such amount to the Company as an Additional Capital Contribution, and in exchange therefor the Company shall issue to each such non-electing Member, as of the date of such deemed distribution, a number of Membership Interests equal to:

(A / B) * C

where:

A = the amount of cash comprising such deemed distribution pursuant to this Section 7.2(a)(ii)(B)

B = the Appraised Value of the Company, as determined by the Board of Managers in accordance with Section 3.2(g)

C = the total number of Membership Interests outstanding immediately prior to such distribution (assuming that all deemed contributions pursuant

to this clause (B) are made by all Members simultaneously with respect to such distribution).

(b) Other Distributions. Except as specified in this Article 7 and Articles 3 and 9, (i) the Company shall have no obligation to distribute any cash or other property of the Company to the Members, and (ii) the Board of Managers shall have sole discretion in determining whether to distribute any cash or other property of the Company, when available, and in determining the timing, kind and amount of any and all distributions. If and to the extent that the Company shall be required to withhold or pay any withholding or other taxes with respect to any Member, such Member shall be deemed for all purposes of this Agreement to have received a payment from the Company as of the time such withholding or other tax is required to be paid, which payment shall be deemed to be a distribution. Except as specified in this Article 7 and Articles 3 and 9, no Member is entitled to receive any distribution unless and until declared by the Board of Managers.

(c) Distributions in Kind. No Member has any right to demand or

receive property other than cash. However, the Board of Managers may in its sole discretion elect to make distributions, entirely or in part, in property of the Company other than cash. Assets of the Company distributed in kind shall be valued based on the fair market value thereof (as determined in good faith by the Board of Managers).

(d) Limitations on Distributions. Notwithstanding anything in this Agreement to the contrary:

(i) no distribution shall be made in violation of the Act; and

(ii) all amounts distributed to Members will be distributed to them pro rata in accordance with their Percentage Interests (except as otherwise provided in Section 7.2(a)(ii)(B)).

(e) Exculpation. The Members hereby consent and agree that, except as expressly provided herein or required by applicable law and except for distributions not made in compliance with this Agreement, no Member shall have an obligation to return cash or other property paid or distributed to such Member under Section 18-502(b) of the Act or otherwise.

ARTICLE 8

TRANSFERS

Section 8.1. Restrictions on Transfers; Additional Members.

(a) Each Member agrees not to Transfer all or any part of its Membership Interests, including but not limited to any economic interest in the Company or its Profits or Losses (or take or omit to take any action, filing, election or other action which could result in a deemed Transfer), except as may be required or permitted by the Formation Agreement. Subject to Sections 3.3(c) and 4.12 and upon approval of the Board of Managers, the Company is authorized to admit any Person as an additional Member of the Company (each, an "Additional

Member" and collectively, the "Additional Members"); provided, however, that (x) a Permitted Transferee of a Wachovia Member or a Prudential Member and any other transferee of Membership Interests shall be admitted as an Additional Member without the requirement of any approval by the Members or the Board of Managers to the extent such Transfer was permitted by and effected in accordance with the provisions of Article 9 of the Formation Agreement and (y) a Designated Combining Member or Designated Non-Combining Member shall be admitted as an Additional Member upon the receipt of Membership Interests without the requirement of any approval by the Members or the Board of Managers to the extent such receipt thereof was permitted by and effected in accordance with the provisions of Section 3.4. Each such Person shall be admitted as an Additional Member at the time (i) such Person executes and delivers this Agreement or a counterpart of this Agreement and agrees in writing to be bound by the terms and conditions of Article 8 (other than Section 8.4) and Articles 9 through 12 of the Formation Agreement, (ii) if requested by any Member, a guarantee substantially similar to Exhibit I of the Formation Agreement is executed and delivered by the ultimate parent of such Additional Member, and (iii) any other applicable requirements of the Formation Agreement is satisfied, at which time such Person shall be named as a Member on Schedule 4.1.

(b) Additional Members shall not be entitled to any retroactive allocation of the Company's income, gains, losses, deductions, credits or other items; provided that, subject to the restrictions of Section 706(d) of the Code, Additional Members shall be entitled to their respective share of the Company's income, gains, losses, deductions, credits and other items arising under contracts entered into before the effective date of the admission of any Additional Members to the extent that such income, gains, losses, deductions, credits and other items arise after such effective date. To the extent consistent with Section 706(d) of the Code and Treasury Regulations promulgated thereunder and as the Board of Managers determines, the Company's books may be closed at the time Additional Members are admitted (as though the Company's Tax Year had ended) or the Company may credit to the Additional Members pro rata allocations of the Company's income, gains, losses, deductions, credits and items for that portion of the Company's Tax Year after the effective date of the admission of the Additional Members.

(c) Unless and until admitted as an Additional Member, a transferee of any Membership Interest shall have no powers, rights or privileges of a Member of the Company. Except as otherwise contemplated by the Formation Agreement and Section 8.1(a) hereof, no transferee of a Membership Interest shall have the right to become an Additional Member unless the Board of Managers, in its sole and absolute discretion, expressly consents thereto in writing, and the transferee agrees to become a Member of the Company and be bound by all of the terms and conditions of this Agreement. Any attempted Transfer not in accordance with the provisions of the Formation Agreement and this Section 8.1 shall be null and void ab initio.

(d) Any Member that Transfers all of its, and owns no, Membership Interests shall immediately cease to be a Member.

ARTICLE 9

DISSOLUTION, LIQUIDATION AND TERMINATION

Section 9.1. No Dissolution. The Company shall not be dissolved by the withdrawal of any Member, or the admission of Additional Members or substitute Members in accordance with the terms of this Agreement or the Formation Agreement.

Section 9.2. Events Causing Dissolution. The Company shall be dissolved and its affairs shall be wound up upon the first to occur of the following events:

(a) the determination of the Members, by means of an affirmative vote of the Members holding the Requisite Membership Interests, to dissolve and terminate the Company;

(b) sale of all or substantially all of the Company's assets;

(c) the entry of a decree of judicial dissolution under Section 18-802 of the Act; or

(d) at any time when there are no Members.

Section 9.3. Bankruptcy of a Member. The bankruptcy or dissolution of a Member shall not in and of itself cause such Member to cease to be a Member of the Company, and upon the occurrence of such event, the Company shall continue without dissolution under the management and control of the remaining Members, unless there are no remaining Members of the Company.

Section 9.4. Winding Up.

(a) In the event of the dissolution of the Company pursuant to Section 9.2, the Company's affairs shall be wound up by a liquidating agent of the Company selected by the Board of Managers (in such capacity, the "Liquidating Agent"), which Liquidating Agent shall be an individual who is knowledgeable about the Business (if possible) and has substantial experience in the purchase and sale of businesses.

(b) Upon dissolution of the Company and until the filing of a certificate of cancellation as provided in Section 18-203 of the Act, the Liquidating Agent may, in the name of, and for and on behalf of, the Company, prosecute and defend lawsuits, whether civil, criminal or administrative, settle and close the Company's business, dispose of and convey the Company's property or sell the Company (and its Subsidiaries) as a going concern, discharge or make reasonable provision for the Company's liabilities, and distribute to the Members in accordance with Section 9.5 any remaining assets of the Company, all without affecting the liability of Members and without imposing any liability on any Liquidating Agent.

(c) Except as otherwise provided in this Agreement, the Members shall continue to share distributions and tax allocations during the period of liquidation in the same manner as before the dissolution. Subject to the provisions of Section 9.5, the Liquidating Agent shall have

reasonable discretion to determine the time, manner and terms of any sale or sales of the Company's property pursuant to such liquidation.

(d) A reasonable time period shall be allowed for the orderly winding up and liquidation of the assets of the Company and the discharge of liabilities to creditors so as to enable the Liquidating Agent to seek to minimize potential losses upon such liquidation. The provisions of this Agreement shall remain in full force and effect during the period of winding up and until the filing of a certificate of cancellation of the Company with the Secretary of State of the State of Delaware.

(e) Upon the completion of the winding up of the Company, any Manager or the Liquidating Agent or other duly designated representative shall file a certificate of cancellation of the Company with the Secretary of State of the State of Delaware as provided in Section 18-203 of the Act.

Section 9.5. Distribution of Assets.

(a) As soon as practicable upon dissolution of the Company, the assets of the Company (or liquidation proceeds) shall be distributed to the Members in

the following manner and order of priority (and ratably within each level of priority):

(i) First, to creditors of the Company, including Members who are creditors, to the extent permitted by law, in satisfaction of liabilities of the Company (whether by payment or the making of reasonable provision for payment thereof) other than liabilities for which reasonable provision has been made and distributions to Members under Article 7 of this Agreement, and

(ii) Second, to the Members pro rata in accordance with their Percentage Interests.

(b) The Liquidating Agent shall have the power to establish any reserves that, in accordance with sound business judgment, it deems reasonably necessary to pay all claims and obligations, including all contingent, conditional or unmatured claims and obligations, which reserves may be paid over to an escrow agent selected by the Liquidating Agent to be held by such agent for the purpose of (i) paying out such reserves in payment of the aforementioned contingencies and (ii) upon the expiration of such period as the Liquidating Agent may deem advisable, making a distribution of the balance thereof to the Members in the manner provided in this Section 9.5.

Section 9.6. Distributions in Cash or in Kind. Upon the dissolution of the Company, the Liquidating Agent shall use all commercially reasonable efforts to liquidate all of the Company assets in an orderly manner and apply the proceeds of such liquidation as set forth in Section 9.5; provided that if in the good faith judgment of the Liquidating Agent, a Company asset should not be liquidated, the Liquidating Agent shall distribute such asset, on the basis of its value (determined in good faith by the Liquidating Agent), in accordance with Section 9.5, subject to the priorities set forth in Section 9.5; provided, further, that the Liquidating Agent shall in good faith attempt to liquidate sufficient assets of the Company to satisfy in cash (or make reasonable provision for) the debts and liabilities referred to in Section 9.5(a).

Section 9.7. Claims of the Members. The Members and former Members shall look solely to the Company's assets for the return of their Capital Contributions, and if the assets of the Company remaining after payment of or due provision for all debts, liabilities and obligations of the Company are insufficient to return such Capital Contributions, the Members and former Members shall have no recourse against the Company, any Manager or alternate Manager, or any other Member. No Member shall have any obligation to make any Capital Contribution with respect to such insufficiency, and such insufficiency shall not be considered a debt owed to the Company or to any other Person.

ARTICLE 10

MISCELLANEOUS

Section 10.1. Compliance with Formation Agreement. The Company shall comply with the provisions of the Formation Agreement applicable to the Company as if a party thereto.

Section 10.2. Performance of Obligations; Futher Assurances. Each Member shall fully and faithfully carry out all its respective agreements and covenants expressly set forth in this Agreement. Each Member shall, upon the request from time to time of the Company and without further consideration, do, execute and perform all such other acts, deeds and documents as may be reasonably requested by the Company to carry out fully the purposes and intent of this Agreement.

Section 10.3. Amendment or Modification. Neither this Agreement nor the Certificate may be amended or modified by the Members, except by an instrument in writing signed by the Members holding the Requisite Membership Interests; provided that this Agreement and the Certificate may be amended at any time to change the name of the Company by action of the Board of Managers to the extent such change of name is permitted pursuant to Section 2.2.

Section 10.4. Waiver. Except as otherwise specifically provided herein, any provision of this Agreement may only be waived at any time by an instrument signed in writing by Members holding the Requisite Membership Interests. Except as specifically provided herein, the failure or delay of any Member to enforce at any time any of the provisions of this Agreement shall in no way be construed to be a waiver of any such provision, nor in any way to affect the validity of this Agreement or any part hereof or the right of any Member thereafter to enforce each and every such provision. No waiver of any breach of or non-compliance with this Agreement shall be held to be a waiver of any other or subsequent breach or non-compliance. Except as specifically provided herein, all remedies, either under this Agreement or by law or otherwise afforded, will be cumulative and not alternative.

Section 10.5. Entire Agreement. This Agreement and the other documents and agreements contemplated hereby contain the entire agreement between the Members with respect to the subject matter hereof and supersede and cancel all prior agreements, understandings, representations and warranties, both oral and written, between the Members with respect thereto.

There are no agreements, undertakings, representations or warranties of any of the Members with respect to the transactions contemplated hereby and thereby other than those set forth herein or therein or made hereunder or thereunder.

Section 10.6. Third Party Beneficiaries. Nothing in this Agreement, express or implied, is intended to confer, nor shall anything herein confer, on any Person other than the Members and their respective successors or permitted assigns, any rights, remedies, obligations or liabilities, except that any Person who is entitled to exculpation or indemnification pursuant to Section 5.8 and is not party to this Agreement shall be a third-party beneficiary of this Agreement to the extent required for purposes of such Section 5.8; provided that all claims for indemnification shall be made only in the name and on behalf of such Person by a Member.

Section 10.7. Non-Assignability; Binding Effect. This Agreement is assignable, in part or in whole, only concurrently with a valid assignment of Membership Interests. A purported assignment of this Agreement or any of the rights, interests or obligations hereunder not in compliance with the provisions of this Agreement shall be null and void ab initio. Subject to the foregoing, this Agreement shall inure to the benefit of and be binding upon the Members and their respective successors and permitted assigns.

Section 10.8. Severability. Every provision of this Agreement is intended to be severable. If any term or provision hereof is declared or held illegal or invalid, in whole or in part, for any reason whatsoever, such illegality or invalidity shall not affect the validity or enforceability of the remainder of the Agreement, and such provision shall be deemed amended or modified to the extent, but only to the extent, necessary to cure such illegality or invalidity. Upon such determination of illegality or invalidity, the Members shall negotiate in good faith to amend this Agreement to effect the original intent of the Members. In any event, the invalidity or unenforceability of any provision of this Agreement in any jurisdiction shall not affect the validity or enforceability of the remainder of this Agreement in that jurisdiction or the validity or enforceability of this Agreement, including that provision, in any other competent jurisdiction.

Section 10.9. Injunctive Relief. The Members acknowledge and agree that a violation of any of the terms of this Agreement will cause the other Members and the Company irreparable injury for which an adequate remedy at law is not available, and if any Member institutes any action or proceeding to enforce the provisions hereof, any Person against whom such action or proceeding is brought hereby waives the claim or defense therein that an adequate remedy at law exists. Accordingly, it is agreed that each of the Members and the Company will be entitled to an injunction, restraining order or other equitable relief to prevent breaches of such provisions of this Agreement and to enforce specifically such provisions hereof in any court of competent jurisdiction, in addition to any other remedy to which they may be entitled at law or equity, except as otherwise specifically provided in this Agreement.

Section 10.10. Governing Law. This Agreement shall be governed by and construed in accordance with the provisions of the Act, and other applicable laws of the State of Delaware.

Section 10.11. Submission to Jurisdiction. Each Member irrevocably submits to the exclusive jurisdiction of (i) the Supreme Court of the State of New York, New York County, and (ii) the United States District Court for the Southern District of New York, for the purposes of any suit, action or other proceeding arising out of this Agreement or any transaction contemplated hereby. Each Member agrees to commence any action, suit or proceeding relating hereto either in the United States District Court for the Southern District of New York or if such suit, action or other proceeding may not be brought in such court for reasons of subject matter jurisdiction, in the Supreme Court of the State of New York, New York County. Each Member irrevocably and unconditionally waives any objection to the laying of venue of any action, suit or proceeding arising out of this Agreement or the transactions contemplated hereby in (A) the Supreme Court of the State of New York, New York County, or (B) the United States District Court for the Southern District of New York, and hereby further irrevocably and unconditionally waives and agrees not to plead or claim in any such court that any such action, suit or proceeding brought in any such court has been brought in an inconvenient forum. Each Member further irrevocably consents to the service of process out of any of the aforementioned courts in any such suit, action or other proceeding by the mailing of copies thereof by mail to such Member at its address set forth in this Agreement, such service of

process to be effective upon acknowledgment of receipt of such registered mail; provided that nothing in this Section 10.11 shall affect the right of any Member to serve legal process in any other manner permitted by law. The consent to jurisdiction set forth in this Section 10.11 shall not constitute a general consent to service of process in the State of New York and shall have no effect for any purpose except as provided in this Section 10.11. The Members agree that a final judgment in any such suit, action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

Section 10.12. Dispute Resolution. Any controversy or claim arising out of or relating to this Agreement, including but not limited to any breach hereof, shall be submitted to non-binding mediation pursuant to the resolution procedures set forth in Section 12.12 of the Formation Agreement.

Section 10.13. WAIVER OF JURY TRIAL. EACH OF THE PARTIES HEREBY WAIVES TRIAL BY JURY IN ANY JUDICIAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTERS (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF, RELATED TO, OR CONNECTED WITH THIS AGREEMENT, THE TRANSACTIONS CONTEMPLATED HEREBY OR THE RELATIONSHIP ESTABLISHED HEREUNDER.

Section 10.14. Notices. All communications hereunder shall be in writing and shall be deemed to have been duly given if signed by the respective Persons giving them (in the case of any corporation, the signature shall be by an appropriate officer thereof) and delivered by hand, or sent by registered mail, return receipt requested, or nationally recognized courier, or by facsimile to the following addresses:

If to the Initial Wachovia Member:

Wachovia Corporation
301 South College Street

Charlotte, North Carolina 28288
Attention: Donald A. McMullen, Jr.
Facsimile: (704) 383-2954
Telephone: (704) 383-9096

With a copy to:

Wachovia Corporation
301 South College Street
Charlotte, North Carolina 28288
Attention: Mark C. Treanor, Esq.
General Counsel
Facsimile: (704) 374-3425
Telephone: (704) 374-6375

And a copy (which copy shall not constitute notice) to:

Simpson Thacher & Bartlett
425 Lexington Avenue
New York, New York 10017
Attention: Lee Meyerson, Esq.
Maripat Alpuche, Esq.
Facsimile: (212) 455-2502
Telephone: (212) 455-2000

If to the Initial Prudential Member:

The Prudential Insurance Company of America
751 Broad Street, 4th Floor
Newark, New Jersey 07102
Attention: Anthony F. Torre
Facsimile: (973) 367-8105
Telephone: (973) 802-6000

And a copy (which copy shall not constitute notice) to:

Debevoise & Plimpton
919 Third Avenue
New York, New York 10022
Attention: Stephen J. Friedman, Esq.
John M. Vasily, Esq.
Facsimile: (212) 909-6836
Telephone: (212) 909-6000

If to any other Member:

(To such addresses reflected in the books and records of the Company)

By written notice to the Company, any Member may change the address to which notices shall be directed.

Section 10.15. Counterparts. This Agreement may be executed in any number of counterparts, and delivered by facsimile or otherwise, each of which shall be deemed an original of this Agreement and all of which together shall constitute one and the same instrument.

Section 10.16. Interpretation. Captions, headings and titles contained in this Agreement and the Schedules are for reference purposes only and shall not affect in any way the meaning or interpretation of this Agreement or the Schedules. When a reference is made in this Agreement to Articles, Sections or Schedules, such reference shall be to an Article or Section of or Schedule to this Agreement unless otherwise indicated. Whenever the words "include," "includes" or "including" are used in this Agreement, they shall be deemed to be followed by the words "without limitation." The words "herein," "hereof," "hereunder" and words of similar import shall be deemed to refer to this Agreement as a whole, including the Schedules hereto, and not to any particular provision of this Agreement. Any pronoun shall include the corresponding masculine, feminine and neuter forms.

[THE NEXT PAGE IS THE SIGNATURE PAGE]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

[INITIAL WACHOVIA MEMBER]

By:_____
Name:
Title:

[INITIAL PRUDENTIAL MEMBER]

By:_____
Name:
Title:

PRUDENTIAL SEVERANCE PLAN FOR SENIOR EXECUTIVES

(Amended and Restated as of February 11, 2003)

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 11, 2003. 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 most senior Vice President responsible for corporate Human Resources of the Company, or the successor to his or her duties relating to corporate Human Resources (the "SVP"), 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.

The Chairperson may resign by delivering his or her written resignation to the SVP, and the SVP 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 SVP or the Chairperson, as applicable.

2.3 "Base Pay" means as follows (or the equivalent thereof as determined by the Company in its sole discretion): (i) for any Eligible Employee employed by a Participating Company as a regular full-time Employee, regular base pay including shift differential, if any, as of the date of the Eligible Employee's Eligible Termination; and (ii) for any Eligible Employee employed by a Participating Company as a regular part-time Employee, annualized pay determined solely on the basis of the Eligible Employee's hourly rate plus shift differential, if any, as of the date of the Eligible Employee's Eligible Termination, times the number of hours worked in the two calendar quarters preceding the full calendar quarter prior to notification of termination, times two.

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

2.5 "Cause" means the following (as determined by the Company it 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 SVP 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 SVP, and the SVP 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 SVP 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.

2.9 “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 Participati g 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, 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 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 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 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 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 other person or persons whether or not connected with 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.

(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 SVP, 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 SVP 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

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

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 11, 2003.

IN WITNESS WHEREOF, The Prudential Insurance Company of America has caused this restated Plan to be executed and adopted effective as of February 11, 2003.

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By /s/ Sharon C. Taylor

Sharon C. Taylor
Senior Vice President, Corporate Human Resources

Dated: March 12, 2003

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.

Exhibit 10.23

SUMMARY OF RETIREMENT SEPARATION AGREEMENT
FOR JEAN HAMILTON

In March 2003 the Board of Directors of Prudential Financial Inc. ("Prudential") approved a separation package for Jean Hamilton, a former Executive Vice President of Prudential. In addition to normal benefits under Prudential's retirement and compensation plans, all of which plans have been filed with the Securities and Exchange Commission as exhibits to various of Prudential's Periodic and Current Reports, Prudential's Board of Directors approved the following two payments to Ms. Hamilton: (1) a lump sum payment of $253,155, in lieu of payments under her offer letter dated July 7, 1988, and Prudential's 1988 and 1989 Capital Accumulation Plans; and (2) a lump sum payment of $50,000, in lieu of outplacement services normally offered in accordance with Prudential's practices.

In exchange for Prudential's Board of Directors' approval of the separation package, Ms. Hamilton executed a Separation Agreement and General Release which included, among other things: (1) a release of all potential claims against Prudential; (2) a covenant not to disclose any of Prudential's confidential and proprietary information; (3) a twelve month restrictive covenant precluding Ms. Hamilton (a) from soliciting any Prudential employee to leave Prudential's employ; and (b) from soliciting business from individuals or entities who became known to Ms. Hamilton during her Prudential employment on behalf of certain competing organizations.

Exhibit 12.1

PRUDENTIAL FINANCIAL, INC.
RATIO OF EARNINGS TO FIXED CHARGES

	For the Year Ended December 31,				
	2002	**2001**	**2000**	**1999**	**1998**
			(in millions)		
Earnings:					
Income (loss) from continuing operations before income taxes	64	(141)	723	2,232	2,583
Undistributed income of investees accounted for under the equity method	(37)	29	25	(14)	62
Interest capitalized	8	6	—	—	—
Adjusted earnings	93	(176)	698	2,246	2,521
Add fixed charges:					
Interest credited to policyholders' account balances	1,846	1,804	1,751	1,811	1,953
Gross interest expense(1)	435	653	1,056	863	917
One-third of rental expense	150	173	166	167	167
Total fixed charges	2,431	2,630	2,973	2,841	3,037
Total earnings plus fixed charges	2,524	2,454	3,671	5,087	5,558
Ratio of earnings to fixed charges(2)	1.04		1.23	1.79	1.83

(1) Includes Securities business related interest expense which is included in "Net investment income" in the Consolidated Statements of Operations, interest which has been capitalized and amortization of debt discounts, premiums and issue costs.
(2) Due to the Company's loss in 2001, the ratio coverage was less than1:1 and is therefore not presented. Additional earnings of $176 million would have been required in 2001 to achieve a ratio of 1:1.

Exhibit 21.1

Subsidiaries of Prudential Financial, Inc.

Subsidiary	Doing Business As	Jurisdiction of Incorporation
745 Property Investments		Massachusetts, US
Alternative Fuels I, LLC		Delaware, US
ARL Holdings, Inc		Delaware, US
Asian Infrastructure Mezzanine Capital Fund		Cayman Islands
Asset Disposition Trust		New Jersey, US
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		Hong Kong
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
China Distri-Park Limited		Bermuda
Circle Housing Corporation	Circle Housing Corporation of Texas	Delaware, US
Circle Nominees Limited		England, UK
Clivwell Securities Limited		England, UK
COLICO, Inc.		Delaware, US
Corcarr Nominees Pty Limited		Victoria, Australia
Corporate America Realty, Inc.		New Jersey, US
Corporate Relocation France		France
Country Road Communications, Inc.		Delaware, US
CRC Series B, LP		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		New Jersey, US
EPP GP		England, UK
EuroInvest (General Partner) Limited		England, UK
Flor-Ag Corporation		Florida, US
FountainGlen Properties, LLC		Delaware, US
Gateway Holdings, Inc.		New Jersey, US
Gateway Holdings, S. A.		Luxembourg
Gateway South Urban Renewal Association		New Jersey, US
Gibraltar Corretora de Seguras Ltda.		Brazil
Gibraltar Hong Kong Holdings Limited Partnership		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
Gibraltar Agency Co., Ltd.		Japan
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
Kyoei Annuity Home Co. Ltd. (Kabushiki Kaisha Nenkin Home)		Japan
Kyosei Industrial Enterprise Co., Ltd.		Japan
Kyosei Leasing Co., Ltd (Kyosei Lease Kabushiki Kaisha)		Japan
Lapine Development Corporation		California, US
Lapine Holding Company		Delaware, US

Subsidiary	Doing Business As	Jurisdiction of Incorporation
Lapine Technology Corporation		California, US
Luddite Associates, GP		Massachusetts, US
Merastar Corporation		Maryland, US
Merastar Insurance Company		Tennessee, US
Minami Aoyama Gardening Co., Ltd.		Japan
ML/MSB Acquisition, Inc.		Delaware, US
Northern Retail Properties (General Partner) Limited		England, UK
P-B Finance Ltd.		Cayman Islands
PB Financial Services, Inc.	PB Financial Services-Metals Division Prudential-Bache Financial Services-Metals Division	Delaware, US
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
Perseverance Associates, LP		California, US
PG Insurance Service Co., Ltd.		Japan
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
PIM Foreign Investments, Inc.		Delaware, US
PGLH Delaware, Inc.		Delaware, US
PGR Advisors I, Inc.		Delaware, US
PGR Advisors, Inc.		Delaware, US
PHMC Services Corporation		New Jersey, US
Phoenix CDO II, Ltd.		Delaware, US
PIC Holdings Limited		England, UK
PIC Realty Canada Limited	PIC Realty Canada Limited	Canada Federal, Canada
PIC Realty Corporation		Delaware, US
PIFM Holdco, Inc.		Delaware, US
PIM Global Financial Strategies, Inc.		New Jersey, US
PIM Investments, Inc.		
PIM Warehouse, Inc.		Delaware, US
PIMS Holding, LLC		Delaware, US
PMCC Holding Company		New Jersey, US
PMCC Houston Apartments, LLC		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

Subsidiary	Doing Business As	Jurisdiction of Incorporation
PRICOA PanEuropean Investment Limited		UK
PRICOA Private Capital Partners ID LP		UK
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	New Jersey, US
Pruco Securities Corporation	Prudential Preferred Advisors	New Jersey, US
PRUCO, Inc.		New Jersey, US
Prudential Agricultural Credit, Inc.		Tennessee, US
Prudential Apolo, Operadora de Sociedades de Inversion S.A. de C.V.		Mexico
Prudential Asset Management Holding Company		New Jersey, US
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.	Prudential Community Interaction Consulting Prudential Community Interaction Consulting (renewal)	Delaware, US
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.		New Mexico
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 Huntoon Paige Associates, Ltd.		Delaware, US
Prudential IBH Holdco, Inc.		Delaware, US

Subsidiary	Doing Business As	Jurisdiction of Incorporation
Prudential Insurance Brokerage, Inc.	Prudential Insurance Service Agency Prudential Home Choice Prudential Service Insurance Agency	Arizona, US
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.	PRG Prudential Realty Group Prudential Personal Investment Counsel Prudential Real Estate Securities Investors The Prudential Capital Markets Group The Prudential Realty Group The Prudential Realty Group, Inc.	New Jersey, US
Prudential Investments Japan Co.		Japan
Prudential Investments LLC		New York, US
Prudential Japan Holdings, LLC		Delaware, US
Prudential Latin American Investments, Ltd.		Cayman Islands
Prudential Life Insurance Company of Taiwan Inc.		Taiwan
Prudential MC Asset Holding Company, LLC		Delaware, US
Prudential Mexico, LLC		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		New York, US
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.		New Jersey, US
Prudential Property and Casualty General Agency, Inc.		Texas, US
Prudential Property and Casualty Insurance Company		Indiana, US
Prudential Real Estate Affiliates of Canada Ltd.		Ontario, Canada
Prudential Real Estate Management Co., Ltd., LLC		Japan
Prudential Realty Securities II, Inc.		Delaware, US
Prudential Realty Securities, Inc		Delaware, US
Prudential Referral Services, Inc.		Delaware, US
Prudential Relocation Canada, Ltd.		Canada Federal, Canada
Prudential Relocation of Texas, Inc.		Texas, US
Prudential Relocation, Inc.	Prudential Relocation	Colorado
Prudential Relocation, Ltd.		Ontario, Canada
Prudential Relocation, S. de R.L. de C.V.		Mexico
Prudential Residential Services, Limited Partnership	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 Ser	Delaware, US
Prudential Resources Management Asia Limited		Hong Kong
Pruential Real Estate Management Co., Ltd, LLC		Japan
Prudential Securities (Argentina) Incorporated		Delaware, US
Prudential Securities (Brasil) Ltda.		Brazil
Prudential Securities (Chile) Inc.		Delaware, US
Prudential Securities (Japan) Limited		Delaware, US

Subsidiary	Doing Business As	Jurisdiction of Incorporation
Prudential Securities (Montevideo) Usuaria 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	Prudential Securities Realty Funding	Delaware, US
Prudential Securities Foundation		New York, US
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.		Puerto Rico, US
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 Segurous, 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		Hong Kong
Prudential-Bache Nominees Limited		England, UK
Prudential-Bache Overseas Funding Limited		England, UK
Prudential-Bache Program Services Inc.		New York, US
Prudential-Bache Properties, Inc.	VMS National Hotel	Delaware, US
Prudential-Bache Securities (Australia) Limited		Victoria, Australia
Prudential-Bache Securities (Germany) Inc.		Delaware, US
Prudential-Bache Securities (Holland) Inc.		Delaware, US
Prudential-Bache Securities (Hong Kong) Limited		Hong Kong
Prudential-Bache Securities (Switzerland) Inc.		Delaware, US
Prudential-Bache Securities (U.K.) Inc.		UK
Prudential-Bache Securities Agencia de Valores S.A.		Spain
Pruedntial-Bache Singapore Holdings Ltd.		New York, US
Prudential-Bache Securities Asia Pacific Ltd.		Singapore
Prudential-Bache Trade Services Inc.		Delaware, US
Prudential-Bache Transfer Agent Services, Inc.		New York, US
Prumerica Asia Fund Management (Singapore) Limited		Singapore
Prumerica Asia Fund Management Limited		Hong Kong
Prumerica Asia Management Services Limited		Hong Kong
Prumerica Financial Asia Limited		Virgin Islands (British)
Prumerica Global Asset Management Company S.A.		Luxembourg
Prumerica Homefron Limited		Hong Kong
Prumerica International Limited		England, UK

Subsidiary	Doing Business As	Jurisdiction of Incorporation
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
PT Wisma Kyoei Prince Indonesia		Indonesia
PTC Services, Inc.		New Jersey, US
Quick Serve Auto Agency		Texas, US
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
Sanei Premium Collecting Service Co., Ltd. (Kabushi Kaisha San-ei)		Japan
Sanei Sightseeing Co., Ltd. (San-ei Kankno Kabushiiki Kaisha)		Japan
Satuski Properties Co., Limited (Yugen Kaisha Satsuki Properties)		Japan
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.	Prudential Defined Contribution Services	New Jersey, US
The Prudential Assigned Settlement Services Corp.		New Jersey, US
The Prudential Bank and Trust Company	The Prudential Trust Company	Georgia, US
The Prudential Commercial Insurance Company of Delaware		Delaware, US
The Prudential Commercial Insurance Company of New Jersey		New Jersey, US
The Prudential General Insurance Company of New Jersey		New Jersey, US
The Prudential Home Mortgage Company, Inc.		New Jersey, US
The Prudential Home Mortgage Securities Company, Inc.		Delaware, US
The Prudential Insurance Company of America		New Jersey, US
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		New Jersey, US
The Prudential Property and Casualty New Jersey Holdings, Inc.		New Jersey, US
The Prudential Property and Casualty New Jersey Insurance Brokerage, Inc.		New Jersey, US
The Prudential Real Estate Affiliates, Inc.	Prudential Real Estate and Relocation Services Prudential Real Estate and Relocation Solutions Prudential Real Estate and Relocation Services The Prudential Real Estate Affiliates, Inc. The Prudential Real Estate Affiliates, Inc. The Prudential Real Esta	Delaware, US
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
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

Subsidiary	Doing Business As	Jurisdiction of Incorporation
Titan Auto Insurance of New Mexico, Inc.		New Mexico, US
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.		New Jersey, US
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

Exhibit 23.1

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 333-102457, 333-102362, 333-87778, 333-75242, 333-75226, 333-75238, 333-75050 and 333-103675) of Prudential Financial, Inc. of our report dated February 11, 2003 relating to the financial statements and financial statement schedules, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

New York, New York
March 14, 2003

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Arthur F. Ryan, Mark B. Grier, Richard J. Carbone, C. Edward Chaplin and John M. Liftin, and each of them severally, his true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934, and any rules, regulations and requirements of the Securities and Exchange Commission (the "Commission") in connection with filing with the Commission of an Annual Report on Form 10-K of Prudential Financial, Inc. (the "Registrant") for the fiscal year ended December 31, 2002 ("Form 10-K"); including specifically, but without limiting the generality of the foregoing, the power and authority to sign his name in his respective capacity as a member of the Board of Directors of the Registrant to the Form 10-K and such other form or forms as may be appropriate to be filed with the Commission as any of them may deem appropriate, together will all exhibits thereto, and to any and all amendments thereto and to any other documents filed with the Commission, as fully for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 11th day of March 2003.

/s/ FRANKLIN E. AGNEW

Franklin E. Agnew
Director

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Arthur F. Ryan, Mark B. Grier, Richard J. Carbone, C. Edward Chaplin and John M. Liftin, and each of them severally, his true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934, and any rules, regulations and requirements of the Securities and Exchange Commission (the "Commission") in connection with filing with the Commission of an Annual Report on Form 10-K of Prudential Financial, Inc. (the "Registrant") for the fiscal year ended December 31, 2002 ("Form 10-K"); including specifically, but without limiting the generality of the foregoing, the power and authority to sign his name in his respective capacity as a member of the Board of Directors of the Registrant to the Form 10-K and such other form or forms as may be appropriate to be filed with the Commission as any of them may deem appropriate, together will all exhibits thereto, and to any and all amendments thereto and to any other documents filed with the Commission, as fully for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 11th day of March 2003.

/S/ FREDERIC K. BECKER

Frederic K. Becker
Director

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Arthur F. Ryan, Mark B. Grier, Richard J. Carbone, C. Edward Chaplin and John M. Liftin, and each of them severally, his true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934, and any rules, regulations and requirements of the Securities and Exchange Commission (the "Commission") in connection with filing with the Commission of an Annual Report on Form 10-K of Prudential Financial, Inc. (the "Registrant") for the fiscal year ended December 31, 2002 ("Form 10-K"); including specifically, but without limiting the generality of the foregoing, the power and authority to sign his name in his respective capacity as a member of the Board of Directors of the Registrant to the Form 10-K and such other form or forms as may be appropriate to be filed with the Commission as any of them may deem appropriate, together will all exhibits thereto, and to any and all amendments thereto and to any other documents filed with the Commission, as fully for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 11th day of March 2003.

/s/ GILBERT F. CASELLAS

Gilbert F. Casellas
Director

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Arthur F. Ryan, Mark B. Grier, Richard J. Carbone, C. Edward Chaplin and John M. Liftin, and each of them severally, his true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934, and any rules, regulations and requirements of the Securities and Exchange Commission (the "Commission") in connection with filing with the Commission of an Annual Report on Form 10-K of Prudential Financial, Inc. (the "Registrant") for the fiscal year ended December 31, 2002 ("Form 10-K"); including specifically, but without limiting the generality of the foregoing, the power and authority to sign his name in his respective capacity as a member of the Board of Directors of the Registrant to the Form 10-K and such other form or forms as may be appropriate to be filed with the Commission as any of them may deem appropriate, together will all exhibits thereto, and to any and all amendments thereto and to any other documents filed with the Commission, as fully for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 11th day of March 2003.

/s/ JAMES G. CULLEN

James G. Cullen
Director

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Arthur F. Ryan, Mark B. Grier, Richard J. Carbone, C. Edward Chaplin and John M. Liftin, and each of them severally, his true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934, and any rules, regulations and requirements of the Securities and Exchange Commission (the "Commission") in connection with filing with the Commission of an Annual Report on Form 10-K of Prudential Financial, Inc. (the "Registrant") for the fiscal year ended December 31, 2002 ("Form 10-K"); including specifically, but without limiting the generality of the foregoing, the power and authority to sign his name in his respective capacity as a member of the Board of Directors of the Registrant to the Form 10-K and such other form or forms as may be appropriate to be filed with the Commission as any of them may deem appropriate, together will all exhibits thereto, and to any and all amendments thereto and to any other documents filed with the Commission, as fully for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 11th day of March 2003.

/s/ ALLAN D. GILMOUR

Allan D. Gilmour
Director

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Arthur F. Ryan, Mark B. Grier, Richard J. Carbone, C. Edward Chaplin and John M. Liftin, and each of them severally, his true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934, and any rules, regulations and requirements of the Securities and Exchange Commission (the "Commission") in connection with filing with the Commission of an Annual Report on Form 10-K of Prudential Financial, Inc. (the "Registrant") for the fiscal year ended December 31, 2002 ("Form 10-K"); including specifically, but without limiting the generality of the foregoing, the power and authority to sign his name in his respective capacity as a member of the Board of Directors of the Registrant to the Form 10-K and such other form or forms as may be appropriate to be filed with the Commission as any of them may deem appropriate, together will all exhibits thereto, and to any and all amendments thereto and to any other documents filed with the Commission, as fully for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 11th day of March 2003.

/s/ WILLIAM H. GRAY

William H. Gray
Director

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Arthur F. Ryan, Mark B. Grier, Richard J. Carbone, C. Edward Chaplin and John M. Liftin, and each of them severally, his true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934, and any rules, regulations and requirements of the Securities and Exchange Commission (the "Commission") in connection with filing with the Commission of an Annual Report on Form 10-K of Prudential Financial, Inc. (the "Registrant") for the fiscal year ended December 31, 2002 ("Form 10-K"); including specifically, but without limiting the generality of the foregoing, the power and authority to sign his name in his respective capacity as a member of the Board of Directors of the Registrant to the Form 10-K and such other form or forms as may be appropriate to be filed with the Commission as any of them may deem appropriate, together will all exhibits thereto, and to any and all amendments thereto and to any other documents filed with the Commission, as fully for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 11th day of March 2003.

/S/ JON F. HANSON

Jon F. Hanson
Director

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Arthur F. Ryan, Mark B. Grier, Richard J. Carbone, C. Edward Chaplin and John M. Liftin, and each of them severally, his true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934, and any rules, regulations and requirements of the Securities and Exchange Commission (the "Commission") in connection with filing with the Commission of an Annual Report on Form 10-K of Prudential Financial, Inc. (the "Registrant") for the fiscal year ended December 31, 2002 ("Form 10-K"); including specifically, but without limiting the generality of the foregoing, the power and authority to sign his name in his respective capacity as a member of the Board of Directors of the Registrant to the Form 10-K and such other form or forms as may be appropriate to be filed with the Commission as any of them may deem appropriate, together will all exhibits thereto, and to any and all amendments thereto and to any other documents filed with the Commission, as fully for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 11th day of March 2003.

/s/ GLEN H. HINER

Glen H. Hiner
Director

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Arthur F. Ryan, Mark B. Grier, Richard J. Carbone, C. Edward Chaplin and John M. Liftin, and each of them severally, his true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934, and any rules, regulations and requirements of the Securities and Exchange Commission (the "Commission") in connection with filing with the Commission of an Annual Report on Form 10-K of Prudential Financial, Inc. (the "Registrant") for the fiscal year ended December 31, 2002 ("Form 10-K"); including specifically, but without limiting the generality of the foregoing, the power and authority to sign his name in his respective capacity as a member of the Board of Directors of the Registrant to the Form 10-K and such other form or forms as may be appropriate to be filed with the Commission as any of them may deem appropriate, together will all exhibits thereto, and to any and all amendments thereto and to any other documents filed with the Commission, as fully for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 11th day of March 2003.

/s/ CONSTANCE J. HOMER

Constance J. Homer
Director

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Arthur F. Ryan, Mark B. Grier, Richard J. Carbone, C. Edward Chaplin and John M. Liftin, and each of them severally, his true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934, and any rules, regulations and requirements of the Securities and Exchange Commission (the "Commission") in connection with filing with the Commission of an Annual Report on Form 10-K of Prudential Financial, Inc. (the "Registrant") for the fiscal year ended December 31, 2002 ("Form 10-K"); including specifically, but without limiting the generality of the foregoing, the power and authority to sign his name in his respective capacity as a member of the Board of Directors of the Registrant to the Form 10-K and such other form or forms as may be appropriate to be filed with the Commission as any of them may deem appropriate, together will all exhibits thereto, and to any and all amendments thereto and to any other documents filed with the Commission, as fully for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 11th day of March 2003.

/s/ BURTON G. MALKIEL

Burton G. Malkiel
Director

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Arthur F. Ryan, Mark B. Grier, Richard J. Carbone, C. Edward Chaplin and John M. Liftin, and each of them severally, his true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934, and any rules, regulations and requirements of the Securities and Exchange Commission (the "Commission") in connection with filing with the Commission of an Annual Report on Form 10-K of Prudential Financial, Inc. (the "Registrant") for the fiscal year ended December 31, 2002 ("Form 10-K"); including specifically, but without limiting the generality of the foregoing, the power and authority to sign his name in his respective capacity as a member of the Board of Directors of the Registrant to the Form 10-K and such other form or forms as may be appropriate to be filed with the Commission as any of them may deem appropriate, together will all exhibits thereto, and to any and all amendments thereto and to any other documents filed with the Commission, as fully for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 11th day of March 2003.

/S/ IDA F.S. SCHMERTZ

Ida F.S. Schmertz
Director

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Arthur F. Ryan, Mark B. Grier, Richard J. Carbone, C. Edward Chaplin and John M. Liftin, and each of them severally, his true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934, and any rules, regulations and requirements of the Securities and Exchange Commission (the "Commission") in connection with filing with the Commission of an Annual Report on Form 10-K of Prudential Financial, Inc. (the "Registrant") for the fiscal year ended December 31, 2002 ("Form 10-K"); including specifically, but without limiting the generality of the foregoing, the power and authority to sign his name in his respective capacity as a member of the Board of Directors of the Registrant to the Form 10-K and such other form or forms as may be appropriate to be filed with the Commission as any of them may deem appropriate, together will all exhibits thereto, and to any and all amendments thereto and to any other documents filed with the Commission, as fully for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 11th day of March 2003.

/s/ RICHARD M. THOMSON

Richard M. Thomson
Director

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Arthur F. Ryan, Mark B. Grier, Richard J. Carbone, C. Edward Chaplin and John M. Liftin, and each of them severally, his true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934, and any rules, regulations and requirements of the Securities and Exchange Commission (the "Commission") in connection with filing with the Commission of an Annual Report on Form 10-K of Prudential Financial, Inc. (the "Registrant") for the fiscal year ended December 31, 2002 ("Form 10-K"); including specifically, but without limiting the generality of the foregoing, the power and authority to sign his name in his respective capacity as a member of the Board of Directors of the Registrant to the Form 10-K and such other form or forms as may be appropriate to be filed with the Commission as any of them may deem appropriate, together will all exhibits thereto, and to any and all amendments thereto and to any other documents filed with the Commission, as fully for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 11th day of March 2003.

/S/ JAMES A. UNRUH

James A. Unruh
Director

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that the person whose signature appears below constitutes and appoints Arthur F. Ryan, Mark B. Grier, Richard J. Carbone, C. Edward Chaplin and John M. Liftin, and each of them severally, his true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934, and any rules, regulations and requirements of the Securities and Exchange Commission (the "Commission") in connection with filing with the Commission of an Annual Report on Form 10-K of Prudential Financial, Inc. (the "Registrant") for the fiscal year ended December 31, 2002 ("Form 10-K"); including specifically, but without limiting the generality of the foregoing, the power and authority to sign his name in his respective capacity as a member of the Board of Directors of the Registrant to the Form 10-K and such other form or forms as may be appropriate to be filed with the Commission as any of them may deem appropriate, together will all exhibits thereto, and to any and all amendments thereto and to any other documents filed with the Commission, as fully for all intents and purposes as he might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

IN WITNESS WHEREOF, I have hereunto set my hand this 11th day of March 2003.

/s/ STANLEY C. VAN NESS

Stanley C. Van Ness
Director